NAFSA: Association of International Educators

Financial Statements
and Independent Auditor's Report

December 31, 2018
(With December 31, 2017 summarized comparative financial information)

CohnReznick
Accounting • Tax • Advisory

NAFSA: Association of International Educators

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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, 2018, 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, 2018, 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.

Emphasis of Matter - Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, in 2018, NAFSA adopted new accounting guidance related to the presentation of financial statements of not-for-profit entities. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited NAFSA's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 13, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

CohnReznick LLP

Bethesda, Maryland
April 30, 2019

NAFSA: Association of International Educators

Statements of Financial Position
December 31, 2018
(With Summarized Totals for the Year Ended December 31, 2017)

Assets

	2018	2017
Current assets		
Cash and cash equivalents	$ 3,416,932	$ 3,916,048
Certificates of deposit	3,695,263	2,477,868
Accounts receivable, net of allowance for uncollectible accounts of $25,000 for 2018 and 2017	52,271	65,384
Prepaid expenses	596,773	612,460
Total current assets	7,761,239	7,071,760
Noncurrent assets		
Investments	13,507,871	15,729,132
Property and equipment, net	1,898,902	844,309
Prepaid expenses, net of current portion	40,658	105,649
Deposits	19,569	19,569
Total noncurrent assets	15,467,000	16,698,659
Total assets	$ 23,228,239	$ 23,770,419

Liabilities and Net Assets

	2018	2017
Current liabilities		
Accounts payable and accrued expenses	$ 903,607	$ 907,994
Deferred membership dues	1,750,042	1,837,432
Other deferred revenue	4,194,907	4,006,444
Total current liabilities	6,848,556	6,751,870
Other liabilities	393,380	414,000
Total liabilities	7,241,936	7,165,870
Net assets		
Without donor restrictions	14,998,475	15,576,597
With donor restrictions	987,828	1,027,952
Total net assets	15,986,303	16,604,549
Total liabilities and net assets	$ 23,228,239	$ 23,770,419

See Notes to Financial Statements.

NAFSA: Association of International Educators

Statements of Activities
Years Ended December 31, 2018
(With Summarized Totals for the Year Ended December 31, 2017)

	2018	2017
Revenue and support		
Conferences	$ 13,244,464	$ 13,429,866
Membership dues	3,844,175	3,978,016
Corporate and member support	1,330,684	1,274,521
Products and services sales	1,320,381	1,416,613
Programs and events	1,117,539	1,019,208
Other	38,806	50,435
Net assets released from restriction	705	32,329
Total revenue and support	20,896,754	21,200,988
Expenses		
Operating expenses		
Salaries, taxes, and benefits	9,537,924	9,744,340
Purchased services	1,452,504	1,365,762
Conferences and meetings	5,550,718	5,833,155
Publications and communications	131,987	115,941
Marketing and advertising	400,998	435,909
Occupancy expenses	708,412	676,503
Technology, printing, office and other	2,534,405	2,414,089
Depreciation and amortization	476,790	560,002
Grants	-	250,000
Total expenses	20,793,738	21,395,701
Change in net assets without donor restrictions before unrealized gains (losses) on investments, interest, dividends and realized gains, net of investment fees, and contribution of region assets	103,016	(194,713)
Unrealized gains (losses) on investments	(1,201,535)	1,099,811
Interest, dividends and realized gains, net of investment fees	520,397	453,194
Contribution of region assets	-	67,016
Change in net assets without donor restrictions	(578,122)	1,425,308
Change in net assets with donor restrictions		
Contributions	200	12,334
Unrealized gains (losses) on investments	(66,628)	75,734
Interest, dividends and realized gains, net of investment fees	27,009	23,321
Net assets released from restriction	(705)	(32,329)
Change in net assets with donor restrictions	(40,124)	79,060
Change in net assets	$ (618,246)	$ 1,504,368

See Notes to Financial Statements.

NAFSA: Association of International Educators

Statements of Changes in Net Assets
Years Ended December 31, 2018
(With Summarized Totals for the Year Ended December 31, 2017)

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Net assets at January 1, 2017	$ 14,151,289	$ 948,892	$ 15,100,181
Change in net assets	1,425,308	79,060	1,504,368
Net assets at December 31, 2017	15,576,597	1,027,952	16,604,549
Change in net assets	(578,122)	(40,124)	(618,246)
Net assets at December 31, 2018	$ 14,998,475	$ 987,828	$ 15,986,303

See Notes to Financial Statements.

NAFSA: Association of International Educators

Statements of Functional Expenses
Years Ended December 31, 2018
(With Summarized Totals for the Year Ended December 31, 2017)

	Member Programs & Services	Conferences	Publications	Public Policy	Regional Activity	Total Program Services	General and Administrative	Organizational Advancement	Governance	Total Supporting Services	2018 Total	Summarized 2017 Total
Salaries, taxes and benefits	$ 4,129,683	$ 1,708,900	$ 642,908	$ 1,064,934	$ -	$ 7,546,425	$ 1,683,632	$ 307,867	$ -	$ 1,991,499	$ 9,537,924	$ 9,744,340
Purchased services	266,564	539,625	154,239	85,924	21,208	1,067,560	369,366	15,578	-	384,944	1,452,504	1,365,762
Conferences and meetings	648,795	3,118,131	14,286	105,273	1,400,740	5,287,225	63,997	14,835	184,661	263,493	5,550,718	5,833,155
Publications and communications	11,178	-	120,691	-	-	131,869	-	25	93	118	131,987	115,941
Marketing and advertising	130,296	223,085	44,806	750	261	399,198	-	1,800	-	1,800	400,998	435,909
Occupancy expenses	785	-	-	-	1,476	2,261	706,151	-	-	706,151	708,412	676,503
Technology, printing, office and other	571,094	453,601	236,085	123,198	22,138	1,406,116	1,118,494	9,159	636	1,128,289	2,534,405	2,414,089
Depreciation and amortization	217,668	2,249	6,690	16,194	-	242,801	233,989	-	-	233,989	476,790	560,002
Grants	-	-	-	-	-	-	-	-	-	-	-	250,000
Total expenses	$ 5,976,063	$ 6,045,591	$ 1,219,705	$ 1,396,273	$ 1,445,823	$ 16,083,455	$ 4,175,629	$ 349,264	$ 185,390	$ 4,710,283	$ 20,793,738	$ 21,395,701

See Notes to Financial Statements.

NAFSA: Association of International Educators

Statements of Cash Flows
Years Ended December 31, 2018
(With Summarized Totals for the Year Ended December 31, 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	$ (618,246)	$ 1,504,368
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized gains on sales of investments	(179,591)	(131,757)
Unrealized (gains) losses	1,268,163	(1,175,545)
Depreciation and amortization	476,790	560,002
Bad debt expense	25,161	19,112
Change in		
Accounts receivable	(12,048)	(26,555)
Prepaid expenses	80,678	(45,169)
Accounts payable and accrued expenses	(4,387)	426,044
Deferred membership dues	(87,390)	(102,875)
Other deferred revenue	188,463	315,701
Other liabilities	(20,620)	97,993
Net cash provided by operating activities	1,116,973	1,441,319
Cash flows from investing activities		
Purchases of certificates of deposit	(5,910,000)	(2,968,000)
Redemptions of certificates of deposit	4,692,605	3,423,233
Proceeds from sales of investments	6,061,467	427,372
Purchases of investments	(4,928,778)	(607,318)
Purchase of property and equipment	(1,531,383)	(503,328)
Net cash used in investing activities	(1,616,089)	(228,041)
Net increase (decrease) in cash and cash equivalents	(499,116)	1,213,278
Cash and cash equivalents, beginning	3,916,048	2,702,770
Cash and cash equivalents, end	$ 3,416,932	$ 3,916,048
Supplemental cash flow information		
Cash paid for income taxes	$ 10,225	$ 48,126

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. No contributions of region assets were made for the year ended December 31, 2018.

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, 2017. 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, 2017, 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 $25,161 and $19,112 was recorded for the years ended December 31, 2018 and 2017, 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. Annuities are presented at the underlying fair value of the mutual funds. Certificates of deposit are valued based upon recently executed transactions, market price quotations and pricing models that factor in interest rates.

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 nondiversified, closed-end management investment company. The PMF Fund is a liquidating fund that has an expected duration of 10 years. At December 31, 2018 and 2017, NAFSA's investment in the PMF Fund was $466,116 and $579,301, respectively. The PMF Fund is carried on NAFSA's December 31, 2018 and 2017 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, 2018 and 2017, 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. The PMF Fund restricts the right to liquidations. Distributions from the PMF Fund are generally distributed quarterly, based upon excess cash as defined.

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 two categories: *net assets without donor restrictions* and n*et assets with donor restrictions*. Net assets without donor restrictions are net assets that are not restricted by donor stipulations for a time or purpose restriction. Net assets with donor restrictions result from contributions and bequests, investment income earned on restricted contributions, and investment income earned and appropriated from endowments. Use of net assets with donor restrictions is limited by donor-imposed purposes or time restrictions that have not yet been fulfilled by actions of NAFSA pursuant to these stipulations or by the passage of time.

Net assets with donor restrictions also result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by NAFSA's actions. The income and gains generated by these assets may be unrestricted or restricted according to donor stipulations.

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. Costs incurred by a program service or supporting service are charged directly to that service. 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 and job registry revenue for the years ended December 31, 2018 and 2017, and, as a result of the Tax Cuts and Jobs Act effective January 1, 2018, qualified transportation fringe benefits are also considered unrelated business income. NAFSA believes it has appropriate support for any tax positions 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, 2018 and 2017. Tax years prior to 2015 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 $30,000 and $11,000 for the years ended December 31, 2018 and 2017, respectively.

Description of activities
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.

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.

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.

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.

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 2017 statement of activities to conform to the 2018 presentation.

Change in accounting principle

During the year ended December 31, 2018, NAFSA adopted the provisions of Accounting Standards Update 2016-14, Presentation of Financial Statements of Not-for-Profit Entities ("ASU 2016-14"). Accordingly, the beginning balances of the net assets previously classified as unrestricted have been retroactively adjusted as *without donor restrictions*. Additionally, donor restricted net assets categories (temporarily and permanently restricted) have been retroactively adjusted to consolidate all donor restricted net assets into one classification, *with donor restrictions*. ASU 2016-14 requires additional disclosures in the areas of liquidity and availability. NAFSA has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented.

Subsequent events

NAFSA has evaluated events and transactions for potential recognition or disclosure through April 30, 2019, the date the financial statements were available to be issued.

Note 2 - Liquidity and availability of resources

The Association strives to maintain liquid financial assets sufficient to cover a rolling three months of general operating expenditures. Financial assets in excess of daily cash requirements are invested in certificates of deposit and short-term investments, and financial assets in excess of three-month reserves are invested according to the Association's Board-approved Investment Policy Statement.

The following table reflects the Association's financial assets as of December 31, 2018 and 2017, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position. Amounts not available include certain 457(b) plan assets, alternative investments with redemption limitations as more fully described in Note 1, and net assets with donor imposed restrictions.

In the event the need arises, the long-term investments could be liquidated to meet operational needs and are not excluded in the following table. Authority for use of invested funds is delegated to the Executive Director and CEO in consultation with NAFSA's Treasurer (Chair of the Finance and Audit Committee). NAFSA's Executive Director and CEO must receive prior approval from the Executive Committee if the use of the invested funds will take longer than 12 months to replenish. NAFSA also maintains a credit facility with Bank of America, N.A. through Merrill Lynch as an additional source of liquidity. Note 6 contains further information about NAFSA's line of credit, including its borrowing capacity.

	December 31, 2018	December 31, 2017
Financial assets		
Cash and cash equivalents	$ 3,416,932	$ 3,916,048
Certificates of deposit	3,695,263	2,477,868
Investments	13,507,871	15,729,132
Accounts receivable, net of allowance for uncollectible accounts	52,271	65,384
	20,672,337	22,188,432
Less: those unavailable for general expenditure within one year due to:		
457(b) plan investment assets	(393,380)	(414,000)
Investments with redemption limitations	(466,116)	(579,301)
Investments subject to donor restrictions	(987,828)	(1,027,952)
	(1,847,324)	(2,021,253)
Financial assets available to meet cash needs for general expenditures within one year	$ 18,825,013	$ 20,167,179

Note 3 - 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 $57,548 at December 31, 2018 and were fully insured under the Canada Deposit Insurance Corporation. The total amount of uninsured deposits at December 31, 2018 amounted to approximately $2,790,000.

Note 4 - Investments

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

	December 31, 2018	December 31, 2017
Cash and money funds	$ 486,355	$ 373,536
Equity securities	469,001	500,109
Mutual funds - equity	1,830,957	2,326,854
Mutual funds - fixed income	3,063,951	3,543,150
Exchange-traded funds	6,798,111	7,992,182
Alternative investment	466,116	579,301
Annuities - deferred compensation plan	393,380	414,000
	$ 13,507,871	$ 15,729,132

Investments include an endowment which had a fair value of $981,703 and $1,021,322 at December 31, 2018 and 2017, respectively.

Investment income consists of the following for the years ended:

December 31, 2018	Without donor restrictions	With donor restrictions	Total
Interest and dividends	$ 350,268	$ 17,547	$ 367,815
Realized gains on sales of investments, net	170,129	9,462	179,591
	520,397	27,009	547,406
Unrealized losses	(1,201,535)	(66,628)	(1,268,163)
	$ (681,138)	$ (39,619)	$ (720,757)

December 31, 2017	Without donor restrictions	With donor restrictions	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

Note 5 - Property and equipment

Property and equipment consists of the following at:

	December 31, 2018	December 31, 2017
Leasehold improvements	$ 1,211,568	$ 1,484,863
Furniture and equipment	363,878	280,989
Computer equipment and software	1,636,026	1,840,143
	3,211,472	3,605,995
Less accumulated depreciation and amortization	(1,312,570)	(2,761,686)
Net property and equipment	$ 1,898,902	$ 844,309

Note 6 - 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 2.38%. The borrowing capacity under the facility fluctuates in proportion to the pledged collateral. As of December 31, 2018 and 2017, NAFSA's borrowing capacity under the facility was $3,129,172 and $2,099,553, respectively. The pledged securities had a value of $3,713,651 and $3,018,735 at December 31, 2018 and 2017, respectively. This credit facility is maintained to finance working capital requirements. The credit facility was not used during 2018 or 2017.

Note 7 - 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 were $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 $257,614 and $227,014 for the years ended December 31, 2018 and 2017, respectively. Rent expense, including NAFSA's prorated share of the annual operating expenses, for 2018 and 2017 totaled $687,751 and $657,151, respectively.

In addition, NAFSA leases equipment under two operating leases. Rent expense under the leases, including service and maintenance costs was $44,211 and $35,799, for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease payments are as follows:

Year ending December 31,	Office	Equipment	Total
2019	$ 253,836	$ 30,851	$ 284,687
2020	346,064	42,212	388,276
2021	353,848	42,212	396,060
2022	361,808	42,212	404,020
2023	554,928	38,694	593,622
Thereafter	3,601,788	-	3,601,788
Total	$ 5,472,272	$ 196,181	$ 5,668,453

Note 8 - Net assets with donor restrictions

As of December 31, 2018 and 2017, net assets with donor restrictions are restricted for the following purposes.

Subject to expenditure for specified purpose:

	December 31, 2018	December 31, 2017
Endowment	$ 262,603	$ 302,222
Professional development	6,125	6,630
	$ 268,728	$ 308,852

Net assets restricted in perpetuity:

	2018	2017
Scholarships	$ 719,100	$ 719,100
Total net assets with restrictions	$ 987,828	$ 1,027,952

Note 9 - Endowment

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 an endowment (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 the endowment is classified as restricted net assets with donor restrictions 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

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.

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, 2018 and 2017, are summarized below:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2017	$ -	$ 922,267	$ 922,267
Interest, dividends and realized gains, net of fees	-	23,321	23,321
Unrealized gains	-	75,734	75,734
Changes in endowment net assets	-	99,055	99,055
Endowment net assets, December 31, 2017	-	1,021,322	1,021,322
Interest, dividends and realized gains, net of fees	-	27,009	27,009
Unrealized losses	-	(66,628)	(66,628)
Changes in endowment net assets	-	(39,619)	(39,619)
Endowment net assets, December 31, 2018	$ -	$ 981,703	$ 981,703

Note 10 - Retirement plans

NAFSA maintained a 403(b) plan (the "Plan") in 2017 and 2018 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 2017 and 2018, and a discretionary employer match. The discretionary employer match ranged from 0% to 4%, for 2018 and 2017, depending on the level of individual employee contributions. Employer contributions to the Plan for the years ended December 31, 2018 and 2017 were $651,897 and $649,021, 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 nonelective funds to the deferred compensation plan. On the accompanying statements of financial position, deferred compensation plan assets of $393,380 and $414,000 are included in investments, and deferred compensation plan liabilities of $393,380 and $414,000 are included in other liabilities for the years ended December 31, 2018 and 2017, respectively. NAFSA's deferred compensation plan assets remain subject to the claims of NAFSA's general creditors.

Note 11 - Commitments and contingencies

NAFSA has executed contracts for future annual conferences through 2027. 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 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 $8,800,000. At December 31, 2018, there are no plans to cancel any future conferences.

Note 12 - 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, 2018 and 2017, 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, 2018				
Assets				
Cash and money funds	$ 486,355	$ -	$ 486,355	$ -
Equity securities	469,001	469,001	-	-
Mutual funds - equity	1,830,957	1,830,957	-	-
Mutual funds - fixed income	3,063,951	3,063,951	-	-
Exchange-traded funds	6,798,111	6,798,111	-	-
Alternative investment - limited partnership	466,116	-	-	466,116
Annuities	393,380	-	317,163	76,217
Certificates of deposit	3,695,263	-	3,695,263	-
	$ 17,203,134	$ 12,162,020	$ 4,498,781	$ 542,333
Liabilities				
Other liabilities	$ (393,380)	$ -	$ (317,163)	$ (76,217)
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)

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 3)		
Balance as of January 1, 2017	$	718,497
Sales and redemptions, net		(122,549)
Realized and unrealized gains, net		58,552
Balance as of December 31, 2017		654,500
Sales and redemptions, net		(98,886)
Realized and unrealized losses, net		(13,281)
Balance as of December 31, 2018	$	542,333

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