

EISNERAMPER

AFS INTERCULTURAL PROGRAMS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016



INDEPENDENT AUDITORS' REPORT

The Board of Trustees
AFS Intercultural Programs, Inc.
New York, New York

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AFS Intercultural Programs, Inc. ("AFS International"), which comprise the consolidated statement of financial position as of December 31, 2017, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

AFS International's management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated 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 AFS International's preparation and fair presentation of the consolidated 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 AFS International'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AFS Intercultural Programs, Inc. 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.

Other Matter

The consolidated financial statements of AFS International as of and for the year ended December 31, 2016 were audited by other auditors, whose report dated June 12, 2017 expressed an unmodified opinion.



EISNERAMPER LLP
New York, New York
June 8, 2018



AFS INTERCULTURAL PROGRAMS, INC.

Consolidated Statements of Financial Position

	December 31,	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	USD 6,576,076	USD 8,199,511
Accounts receivable	536,643	918,211
Due from partner organizations in clearinghouse	847,798	411,042
Investments	3,370,170	3,054,007
Collective insurance account, net	1,062,841	1,000,568
Prepaid expenses and other assets	1,129,921	1,014,932
Partner lines of credit outstanding, net	380,440	102,000
Property and equipment, net	205,233	273,595
Beneficial interest in assets held by others	<u>593,611</u>	<u>544,598</u>
 Total assets	 <u>USD 14,702,733</u>	 <u>USD 15,518,464</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	USD 678,610	USD 359,039
Due to partner organizations in clearinghouse	368,605	1,334,928
Deferred fees from partner organizations	2,116,530	2,183,880
Accrued postretirement benefit obligation	<u>2,936,915</u>	<u>2,011,185</u>
 Total liabilities	 <u>6,100,660</u>	 <u>5,889,032</u>
 Commitments and contingencies (Note M)		
Net assets:		
Unrestricted - undesignated	3,050,708	3,969,835
Unrestricted - board designated:		
Liability fund	1,272,093	1,294,019
Participant medical fund	1,596,748	1,795,717
International emergency fund	705,069	614,885
Network strategic investment fund	<u>64,577</u>	<u>73,195</u>
 Total unrestricted	 <u>6,689,195</u>	 <u>7,747,651</u>
Temporarily restricted	748,267	766,633
Permanently restricted	<u>1,164,611</u>	<u>1,115,148</u>
 Total net assets	 <u>8,602,073</u>	 <u>9,629,432</u>
	<u>USD 14,702,733</u>	<u>USD 15,518,464</u>

See notes to consolidated financial statements.

AFS INTERCULTURAL PROGRAMS, INC.

Consolidated Statements of Activities

	Year Ended December 31,							
	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Activities:								
Public support and revenue:								
Fees from partner organizations	USD 11,896,514			USD 11,896,514	USD 11,804,985			USD 11,804,985
Contributions	137,801	USD 1,241,427	USD 450	1,379,678	161,209	USD 1,415,681	USD 41,750	1,618,640
Travel operations	2,877,823			2,877,823	3,108,255			3,108,255
International conference fees and projects	735,301			735,301	999,816			999,816
Investment income	531,790	125,695		657,485	199,250	28,984		228,234
Total public support and revenue before net assets released from restrictions	16,179,229	1,367,122	450	17,546,801	16,273,515	1,444,665	41,750	17,759,930
Net assets released from restrictions	1,385,488	(1,385,488)		0	1,871,202	(1,871,202)		0
Total public support and revenue	17,564,717	(18,366)	450	17,546,801	18,144,717	(426,537)	41,750	17,759,930
Expenses:								
Program services:								
Partner services	8,916,973			8,916,973	10,572,428			10,572,428
Participant medical fund	5,169,548			5,169,548	4,531,497			4,531,497
Liability fund	1,089,078			1,089,078	1,115,135			1,115,135
Network strategic investment fund	720,206			720,206	223,960			223,960
Total program services	15,895,805			15,895,805	16,443,020			16,443,020
Supporting services:								
Management and general	1,849,337			1,849,337	1,943,974			1,943,974
Fundraising	20,277			20,277	20,516			20,516
Total supporting services	1,869,614			1,869,614	1,964,490			1,964,490
Total expenses	17,765,419			17,765,419	18,407,510			18,407,510
Change in net assets from operations	(200,702)	(18,366)	450	(218,618)	(262,793)	(426,537)	41,750	(647,580)
Non-operating activities:								
Change in value of beneficial interest in assets held by others			49,013	49,013			(4,149)	(4,149)
Change in postretirement benefit obligation other than net periodic benefit cost	(857,754)			(857,754)	340,141			340,141
Change in nets assets	(1,058,456)	(18,366)	49,463	(1,027,359)	77,348	(426,537)	37,601	(311,588)
Net assets, beginning of year	7,747,651	766,633	1,115,148	9,629,432	7,670,303	1,193,170	1,077,547	9,941,020
Net assets, end of year	USD 6,689,195	USD 748,267	USD 1,164,611	USD 8,602,073	USD 7,747,651	USD 766,633	USD 1,115,148	USD 9,629,432

See notes to consolidated financial statements.

AFS INTERCULTURAL PROGRAMS, INC.

Consolidated Statement of Functional Expenses

Year Ended December 31, 2017

(with summarized financial information for 2016)

	Program Services					Supporting Services			Total	
	Partner Services	Participant Medical Fund	Liability Fund	Network Strategic Investment Fund	Total Program Services	Management and General	Fund- Raising	Total Supporting Services	Total	
									2017	2016*
Salaries, payroll taxes and fringe benefits	USD 3,014,950	USD 127,890	USD 200,667	USD 249,403	USD 3,592,910	USD 770,831	USD 12,089	USD 782,920	USD 4,375,830	USD 4,213,241
Professional fees	1,115,855	260	180,571	374,877	1,671,563	259,071	731	259,802	1,931,365	2,448,780
Occupancy	103,683				103,683	370,435		370,435	474,118	430,565
Insurance premiums	43,851	5,031,468	676,241		5,751,560	14,521		14,521	5,766,081	5,199,672
International meetings, field visits and lodging	815,126	2,652	20,888	87,205	925,871	110,100	107	110,207	1,036,078	1,200,144
Training and recognition	1,527				1,527	60,482		60,482	62,009	76,901
Office supplies	54,471				54,471	46,250	7,350	53,600	108,071	102,219
Equipment rental and maintenance	2,145				2,145	17,001		17,001	19,146	23,660
Financial support for partner operations	892,533				892,533			892,533	1,300,537	
Telecommunications	80,260			7,288	87,548	24,603		24,603	112,151	75,844
Depreciation and amortization	101,121				101,121	101,120		101,120	202,241	181,619
Medical expenses		3,830			3,830				3,830	916
Cost of travel tickets	2,556,552				2,556,552				2,556,552	2,780,649
Change in allowance for uncollectible accounts						41,000		41,000	41,000	140,000
Offsite storage	30,605				30,605	14,209		14,209	44,814	39,689
Printing	22,539				22,539	9,574		9,574	32,113	41,892
Bank charges	22,615				22,615	1,432		1,432	24,047	25,046
Miscellaneous	59,140	3,448	10,711	1,433	74,732	8,708		8,708	83,440	126,136
Total expenses	USD 8,916,973	USD 5,169,548	USD 1,089,078	USD 720,206	USD 15,895,805	USD 1,849,337	USD 20,277	USD 1,869,614	USD 17,765,419	USD 18,407,510

* See page 5 for detail of 2016 consolidated statement of functional expenses.

AFS INTERCULTURAL PROGRAMS, INC.

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2016**

	Program Services					Supporting Services			Total Expenses
	Partner Services	Participant Medical Fund	Liability Fund	Network Strategic Investment Fund	Total Program Services	Management and General	Fund-Raising	Total Supporting Services	
Salaries, payroll taxes and fringe benefits	USD 3,060,176	USD 48,720	USD 235,124	USD 162,377	USD 3,506,397	USD 703,717	USD 3,127	USD 706,844	USD 4,213,241
Professional fees	1,855,731	12,979	162,064	61,583	2,092,357	349,891	6,532	356,423	2,448,780
Occupancy	98,173				98,173	332,392		332,392	430,565
Insurance premiums	37,523	4,464,420	680,632		5,182,575	17,097		17,097	5,199,672
International meetings, field visits and lodging	1,070,153	809	23,695		1,094,657	101,358	4,129	105,487	1,200,144
Training and recognition	3,351				3,351	73,550		73,550	76,901
Office supplies	55,920				55,920	40,251	6,048	46,299	102,219
Equipment rental and maintenance	1,988				1,988	21,672		21,672	23,660
Financial support for partner operations	1,300,537				1,300,537				1,300,537
Telecommunications	53,141				53,141	22,703		22,703	75,844
Depreciation and amortization	96,990				96,990	84,629		84,629	181,619
Medical expenses		916			916				916
Cost of travel tickets	2,780,649				2,780,649				2,780,649
Change in allowance for uncollectible accounts						140,000		140,000	140,000
Offsite storage	23,446				23,446	16,243		16,243	39,689
Printing	34,843				34,843	7,049		7,049	41,892
Bank charges	23,686				23,686	1,360		1,360	25,046
Miscellaneous	76,121	3,653	13,620		93,394	32,062	680	32,742	126,136
Total expenses	USD 10,572,428	USD 4,531,497	USD 1,115,135	USD 223,960	USD 16,443,020	USD 1,943,974	USD 20,516	USD 1,964,490	USD 18,407,510

See notes to consolidated financial statements.

AFS INTERCULTURAL PROGRAMS, INC.

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Change in unrestricted net assets	USD (1,027,359)	USD (311,588)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	202,241	181,619
Donated securities		(28,206)
Net realized and unrealized (gains) losses on investments	(383,177)	26,096
Change in value of beneficial interest in assets held by others	(49,013)	4,149
Change in allowance for uncollectible accounts	41,000	140,000
Changes in:		
Accounts receivable	381,568	(631,981)
Due from partner organizations in clearinghouse	(436,756)	(10,134)
Collective insurance account, net	(62,273)	(58,037)
Prepaid expenses and other assets	(114,989)	61,510
Accounts payable and accrued expenses	319,571	(57,848)
Due to partner organizations in clearinghouse	(966,323)	(206,387)
Deferred fees from partner organizations	(67,350)	(118,125)
Accrued postretirement benefit obligation	925,730	(314,796)
Net cash used in operating activities	<u>(1,237,130)</u>	<u>(1,323,728)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(133,879)	(199,414)
Purchases of investments	(245,796)	(150,918)
Proceeds from sales of investments	312,810	24,852
Net cash used in investing activities	<u>(66,865)</u>	<u>(325,480)</u>
Cash flows from financing activities:		
Partner lines of credit advances	(319,440)	(141,756)
Decrease in cash and cash equivalents	(1,623,435)	(1,790,964)
Cash and cash equivalents, beginning of year	<u>8,199,511</u>	<u>9,990,475</u>
Cash and cash equivalents, end of year	<u>USD 6,576,076</u>	<u>USD 8,199,511</u>

See notes to consolidated financial statements.

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

AFS Intercultural Programs, Inc. is an international, nongovernmental, volunteer-based not-for-profit organization incorporated in New York State in 1947. AFS Intercultural Programs, Inc. promotes intercultural learning worldwide through exchange programs for students, professionals, workers and families. AFS Intercultural Programs, Inc. is exempt from U.S. federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, and from state and local taxes under comparable laws.

AFS Intercultural Programs, Inc. is the governing and coordinating body for the learning programs worldwide and also provides a range of services to participating national organizations. National organizations each have financial and managerial responsibility for programs and operations within their national territories and are called "partners" or "partner organizations". Each has signed a legal agreement with AFS Intercultural Programs, Inc., binding AFS Intercultural Programs, Inc. and each legally separate national organization to the terms of the "Articles of Partnership", which set forth the operating principles and procedures of the "partnership system". The term "partner" and "partnership" reflect the spirit of mutual cooperation that AFS Intercultural Programs, Inc. and the partners seek to promote, rather than the legal form that is known as a partnership under the laws of some countries, including the United States. At December 31, 2017 and 2016, there were 50 partners.

Generally, every partner receives all the revenue generated within its territories, including participant fees and funds raised. Each is responsible for all costs generated within its territory, including office costs and costs associated with hosting participants from other partners. Partners also pay all international travel costs for the participants they send to other partners. These revenue and expenses are not included in the accompanying consolidated financial statements.

Partners pay a hosting fee for each participant they send on AFS programs and also receive a hosting fee for each participant hosted. AFS Intercultural Programs, Inc. acts as a clearinghouse (or agency) for these payments between partners, and therefore, these transactions are not reflected as revenues and are not included in the accompanying financial statements. Total amounts cleared for the benefit of partners in the clearinghouse for the years ended December 31, 2017 and 2016 were approximately USD 36,450,000 and USD 36,150,000, respectively.

The AFS trademarks are held by the AFS Foundation (the "Foundation") in Switzerland. In 2004, AFS Intercultural Programs, Inc. entered into a license agreement with the Foundation, pursuant to which AFS Intercultural Programs, Inc. is responsible for maintaining and protecting the AFS International trademarks worldwide, and for sublicensing the trademarks to partners and other organizations affiliated with AFS Intercultural Programs, Inc. There were no material revenues or expenses between the two entities for either of the years ended December 31, 2017 or 2016. AFS Intercultural Programs, Inc. has no control over the Foundation, and accordingly, the financial statements of the Foundation have not been consolidated with those of AFS Intercultural Programs, Inc.

Itero Intercultural Experiences was created in 2014 by AFS Intercultural Programs, Inc. together with 26 investing partners to further promote AFS Intercultural Programs, Inc.'s mission and activities around the world. In 2016, the name was changed to Sentio, Inc. ("Sentio"). Sentio is exempt from U.S. federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, and from state and local taxes under comparable laws. Sentio is controlled by AFS Intercultural Programs, Inc. and accordingly is consolidated within the accompanying financial statements. Collectively, the entity is referred to as "AFS International".

[2] Basis of accounting:

The consolidated financial statements of AFS International have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to not-for-profit organizations.

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] 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 amount of assets, liabilities, public support and revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

[4] Cash and cash equivalents:

For financial-reporting purposes, AFS International considers highly liquid investments, purchased with an original maturity of three months or less, to be cash equivalents.

[5] Investments:

AFS International's investments consist of certificates of deposits and mutual funds. Purchases of long-term certificates of deposit with maturities of six months or more are included in AFS International's investment portfolio and are reported at fair value. Exchange traded equity mutual funds are reported at fair value based on quoted market prices.

AFS International invests in a multi-asset fund for which a readily determinable fair value does not exist. The fair value of the multi-asset fund has been estimated based on the respective net asset value ("NAV") per share (or its equivalent unit) of the investment, as reported by the investment manager. Because of the complex management structures and natures of the underlying investment and the inherent uncertainty of the valuation of the multi-asset fund, AFS International's management and its investment manager monitor its position to reduce the risk of potential losses due either to changes in fair value or to the failure of counterparties to perform. Management believes the carrying amount of the investment in non-publicly traded security is a reasonable estimate of its fair value. However, the estimated fair value may differ significantly from the value that would have been used had a ready market for this security existed.

Investment transactions are recorded on a trade-date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the consolidated statements of activities as increases or decreases in unrestricted net assets unless their use is restricted on a temporary or permanent basis through donor stipulation. Realized gains and losses on investments are determined by comparison of the average cost of acquisition to proceeds at the time of disposition. Unrealized gains and losses on investments are determined by comparing the investment's cost to the fair value at the end of each year. The earnings from dividends and interest are recognized when earned.

AFS International does not incur investment management fees. Those fees that are embedded in various other investment accounts and transactions as part of its mutual fund portfolio are included as part of that investments acquisition cost.

Donated securities are recorded at their fair values at the dates of donation. AFS International's policy is to sell donated securities immediately, and, accordingly, for purposes of the consolidated statements of cash flows, donated securities and the proceeds generated from their sale are included as operating activities.

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Property and equipment:

Property and equipment are reported at their original costs, or, if contributed, at their estimated fair values on the dates of donation. AFS International capitalizes items of property and equipment that have a cost of USD 2,500 or more and a useful life greater than one year, whereas, the costs of minor repairs and maintenance are expensed as incurred. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the related assets, which range from three to ten years. Leasehold improvements are capitalized and amortized using the straight-line method over the remaining lease term or the useful lives of the improvements, whichever is shorter.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of December 31, 2017 and 2016, respectively, and in the opinion of management, there were no impairments. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[7] Accrued vacation:

In the event that they leave AFS International prior to April, AFS International's employees are entitled to be paid in a lump sum for accrued unused vacation time through April of the subsequent year, calculated on a pro-rata basis. Accordingly, at each year-end, AFS International must recognize a liability for the amount that would be incurred if all employees with such unused vacation time were to leave; the obligation is recalculated every year. At December 31, 2017 and 2016, this accrued vacation obligation was approximately USD 123,000 and USD 125,000, respectively, and was reported in the accompanying consolidated statements of financial position as a part of accounts payable and accrued expenses.

[8] Net assets:

The consolidated statements of activities present the changes in the various classifications of net assets for the year. The net assets of AFS International and changes therein are classified based on donor-imposed restrictions, or the absence thereof, and are reported as follows:

(i) Unrestricted:

Unrestricted net assets represent those resources that are not subject to donor restrictions and are therefore available for current operations. Accordingly, the Board of Trustees has allocated a portion of these unrestricted funds to act as board-designated for program purposes (see Note I).

(ii) Temporarily restricted:

Temporarily restricted net assets represent those resources that are subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") as well as those resources for which the use has been restricted by donors to specific purposes and/or the passage of time. Net assets released from restrictions represent the satisfaction of the restricted purposes specified by the donor, the passage of time, or appropriation by the Board of Trustees.

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Net assets: (continued)

(iii) *Permanently restricted:*

Permanently restricted net assets represent those resources, the use of which has been permanently restricted by donors. Generally, the donors of these assets permit AFS International to use all or part of the income and net capital appreciation earned on related investments for general or specific purposes. Under the terms of NYPMIFA, those earnings are classified as temporarily restricted in the accompanying statements of activities, until appropriated by the Board of Trustees or the purpose restrictions are met.

[9] Revenue recognition:

(i) *Fees from partner organizations:*

Partners pay certain annual fees to AFS International to cover the cost of international governance, program and supporting services, and program development. These are based on a per capita charge for the participant in the program during the prior year and a partnership fee of USD 25,000 for full partners and USD 10,000 for provisional partners, totaling approximately USD 5,242,000 and USD 5,865,000 for the years ended December 31, 2017 and 2016, respectively. In addition, partners pay AFS International an amount for each participant they send on AFS programs to cover the cost of participant medical insurance. For programs that span two calendar years, the fees relating to each year are deferred. In addition, partners also pay an annual fee for other programs of AFS International, including the liability fund, network strategic investment fund and international emergency fund. Revenues from these sources are recorded at the end of the year based on services rendered for the calendar year. Revenue from these sources for the year ended December 31, 2017 and 2016, were USD 6,655,000 and USD 5,940,000, respectively. Surplus on these funds at the end of each year have been designated by the Board of Trustees of AFS International for use in future periods.

Further, AFS International charges fees to assist participants in their travel as part of the exchange programs offered. AFS International has a strong reputation in the marketplace and is in a good position financially, a significant portion of its revenue comes from fees charged to partners for AFS International administering the intercultural programs worldwide.

(ii) *Contributions and grants:*

Contributions to the AFS International are recognized as revenue upon the receipt of specified cash or other assets or of unconditional pledges and are considered available for unrestricted use, unless specifically restricted on a temporary or permanent basis by the donor. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

(iii) *International conference fees:*

AFS International recognizes revenues from conferences when the conferences take place.

(iv) *Travel operations:*

AFS International collects fees for assistance with travel arrangements within the United States or departures from the United States. This service is offered as part of the exchange programs supported by AFS International.

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] Volunteers:

A number of unpaid volunteers have made significant contributions of their time performing administrative functions for AFS International. The value of this contributed time is not recorded in the consolidated financial statements because it does not meet the criteria for revenue recognition required by U.S. GAAP.

[11] Functional allocation of expenses:

The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by the AFS International's management. Indirect costs have been functionalized on the basis of the beneficiary of services provided.

[12] Measurement of operations:

AFS International includes in its measurement of operations all revenue and expenses that are an integral part of its programs and supporting activities. Non-operating activities include (i) the change in value of beneficial interest in assets held by others and (ii) the change in postretirement benefit obligation other than net periodic benefit cost.

[13] Income tax uncertainties:

AFS International is subject to the provisions of Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, as it relates to accounting and reporting for uncertainty in income taxes. Because of AFS International's general tax-exempt status, ASC Topic 740 has not had, and is not expected to have, a material impact on AFS International's consolidated financial statements.

[14] Reclassification:

Certain information in the prior year's consolidated financial statements has been reclassified to conform with the current year's presentation.

[15] Upcoming accounting pronouncement:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends financial-statement presentations and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and availability of resources, and (v) the presentation of operating cash flows. The new standard is effective for fiscal years beginning after December 15, 2017. AFS International will adopt the pronouncement in 2018.

[16] Subsequent events:

AFS International evaluated subsequent events through June 8, 2018, the date on which the consolidated financial statements were available to be issued.

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE B - ACCOUNTS RECEIVABLE

At each fiscal year-end, accounts receivable consisted of amounts due to AFS International for exchange-type transactions. All amounts are due within one year. Based on management's past experience, all receivables are expected to be fully collected, and accordingly no amounts were reserved as uncollectible in either 2017 or in 2016.

NOTE C - INVESTMENTS

At each year-end, investments consisted of the following:

	December 31,			
	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Certificates of deposit	USD 80,681	USD 83,605	USD 80,560	USD 83,055
Mutual fund – equity fund	29,125	26,575	28,206	25,799
Mutual fund – multi-asset fund	<u>3,260,364</u>	<u>3,548,195</u>	<u>2,945,241</u>	<u>3,303,783</u>
	<u>USD 3,370,170</u>	<u>USD 3,658,375</u>	<u>USD 3,054,007</u>	<u>USD 3,412,637</u>

At both December 31, 2017 and 2016, concentrations of AFS International's investment in excess of 10% of the fair values of its portfolio included approximately 97% invested in mutual funds.

During each year, net investment income consisted of the following:

	Year Ended December 31,	
	2017	2016
Dividends and interest	USD 274,308	USD 121,585
Net realized gains on sale of investments	312,752	132,083
Net unrealized gains (losses) on investments	<u>70,425</u>	<u>(25,434)</u>
	<u>USD 657,485</u>	<u>USD 228,234</u>

ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1 - Valuations are based on observable inputs that reflect quoted market prices in active markets for those investments, or similar investments at the reporting date.
- Level 2 - Valuations are based on (i) quoted prices for similar investments in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.
- Level 3 - Valuations are based on pricing inputs that are unobservable and include situations where there is little, if any, market activity for the investments, or the investments cannot be independently valued.

AFS International's investments are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE C - INVESTMENTS (CONTINUED)

AFS International has investments that are valued using NAV or its equivalent as a practical expedient of fair value. This applies to investments which (i) do not have a readily determinable fair value and (ii) whose financial statements were prepared by the respective investment manager consistent with the measurement principles of an investment company or have the attributes of an investment company. Investments that are valued using NAV are not required to be categorized within the fair value hierarchy. Accordingly, these investments and certain related tables have been properly excluded from the consolidated financial statements.

The availability of market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. For 2017 and 2016, there were no transfers among fair-value hierarchy levels.

The following tables summarize the fair values of AFS International's investments at each year-end, in accordance with the ASC Topic 820-10-05 valuation levels:

December 31, 2017				
Amounts Within Fair-Value Hierarchy				
	Level 1	Total	Measured at NAV	Total Investments
Certificates of deposit	USD 80,681	USD 80,681		USD 80,681
Mutual fund - equity fund	29,125	29,125		29,125
Mutual fund - multi-asset fund			USD 3,260,364	3,260,364
Total	USD 109,806	USD 109,806	USD 3,260,364	USD 3,370,170

December 31, 2016				
Amounts Within Fair-Value Hierarchy				
	Level 1	Total	Measured at NAV	Total Investments
Certificates of deposit	USD 80,560	USD 80,560		USD 80,560
Mutual fund - equity fund	28,206	28,206		28,206
Mutual fund - multi-asset fund			USD 2,945,241	2,945,241
Total	USD 108,766	USD 108,766	USD 2,945,241	USD 3,054,007

The multi-asset fund is invested with The Investment Fund for Foundations ("TIFF"). Shares of TIFF are not subject to a liquidation notice period, and can be liquidated within one business day.

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE D - PROPERTY AND EQUIPMENT

At year-end, property and equipment consisted of the following:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Furniture	USD 53,035	USD 92,368
Equipment	357,728	352,318
Leasehold improvements	<u>550,243</u>	<u>550,243</u>
	961,006	994,929
Less: accumulated depreciation and amortization	<u>(755,773)</u>	<u>(721,334)</u>
	<u>USD 205,233</u>	<u>USD 273,595</u>

During 2017, AFS International disposed of USD 167,802 for fully-depreciated furniture and equipment no longer in use.

NOTE E - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The wills of Laura Hassler and Robert Hassler provided that their estates were to be invested by trustees (the "Trust") into a charitable remainder trust established for multiple beneficiaries of which AFS International is a 20% participant. The annual income therefrom is to be contributed to AFS International for purposes of scholarships to those participants of AFS programs. The Trust's assets are invested in bond and equity mutual funds, and equities, and their fair value was USD 593,611 and USD 544,598 at December 31, 2017 and 2016, respectively. The change in the value of the beneficial interest is recorded in permanently restricted net assets.

At December 31, 2017 and 2016, AFS International's beneficial interest in assets held by others is classified at Level 3 in the fair value hierarchy. The following table summarizes the changes in the fair value of the Level 3 beneficial interest in assets held by others in 2017 and 2016:

Balance - December 31, 2015	USD 548,747
Unrealized loss	<u>(4,149)</u>
Balance - December 31, 2016	544,598
Unrealized gain	<u>49,013</u>
Balance - December 31, 2017	<u>USD 593,611</u>

Quantitative information regarding unobserved inputs developed by AFS International and assumptions used to measure the fair value of the beneficial interest in assets held by others as of December 31, 2017 are as follows:

<u>Type</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>	<u>Range</u>
Beneficial interest in assets held by others	USD 593,611	Fair value of assets	N/A	N/A

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE F - RESTRUCTURING ACTIVITIES AND PARTNERS' LINES OF CREDIT OUTSTANDING

On a periodic basis, AFS International is requested to help manage restructuring opportunities for various partners.

The Board of Trustees has established unsecured lines of credit with certain partners with limits totaling USD 870,000 at December 31, 2017, of which USD 869,440 was drawn down. The outstanding balances on these lines of credit bear interest at prime plus 1% which was 4.5% and 3.75% at December 31, 2017 and 2016, respectively, and the lines of credit are extending through various dates in 2018. For 2017 and 2016, total interest earned was approximately USD 35,000 and USD 21,000, respectively. In December 31, 2017 and 2016, partners' lines of credit receivable, net of allowances of uncollectible amounts were outstanding from various partners as follows:

	December 31,	
	2017	2016
Partners' lines of credit outstanding	USD 869,440	USD 550,000
Less: allowances for uncollectible accounts	<u>(489,000)</u>	<u>(448,000)</u>
	<u>USD 380,440</u>	<u>USD 102,000</u>

NOTE G - EMPLOYEE-BENEFIT PLANS

[1] Defined-contribution plans:

AFS International sponsors a Section 403(b) tax-shelter annuity plan, which is available to all employees who have completed 1,000 hours of service for a calendar year. Participants in the plan must contribute a minimum of 5.0% of their compensation to the plan in order to receive a 7.5% employer contribution by AFS International. Participants' contributions and employer contributions are 100% vested immediately. AFS International's contribution to the pension plan for 2017 and 2016 amounted to USD 203,340 and USD 186,450, respectively. AFS International's policy is to fund the plan currently.

[2] Post-retirement medical benefits:

AFS International also administers a post-retirement medical benefits plan (the "Plan"). The Plan provides subsidized medical and pharmaceutical benefits for employees who retire at age 60 having completed 15 years of service, or at age 62, or at a later age, having completed 10 years of service. The Board of Trustees adopted a plan change, effective January 1, 2013, which grandfathers future retirees who were hired prior to January 1, 2009, and born prior to January 1, 1960 with non-participatory group medical benefits. Non-grandfathered participants are permitted to continue with group coverage with the limitation that AFS International will contribute up to a maximum of USD 300 per month toward the cost of health insurance for retirees only; retirees will, therefore, be required to contribute the differences between USD 300 per month and the prevailing premium amounts as retirees, or as retirees plus dependents.

AFS INTERCULTURAL PROGRAMS, INC.

**Notes to Consolidated Financial Statements
December 31, 2017 and 2016**

NOTE G - EMPLOYEE-BENEFIT PLANS (CONTINUED)

[2] Post-retirement medical benefits: (continued)

The following table presents the plan's status at each year-end:

	December 31,	
	2017	2016
Accumulated postretirement benefit obligation	USD (2,936,915)	USD (2,011,185)
Plan assets at fair value	<u>0</u>	<u>0</u>
Accrued postretirement benefit costs	<u>USD (2,936,915)</u>	<u>USD (2,011,185)</u>
Adjustment to net assets reported in the consolidated statements of activities:		
Net (loss) gain	<u>USD (857,754)</u>	<u>USD 340,141</u>

During each year, the net periodic postretirement-benefit cost included the following components:

	Year Ended December 31,	
	2017	2016
Service cost	USD 16,048	USD 19,087
Interest cost	105,058	84,929
Amortization of prior service cost	(35,807)	(35,807)
Amortization of net loss	<u>66,277</u>	<u>37,636</u>
Net periodic postretirement benefit cost	<u>USD 151,576</u>	<u>USD 105,845</u>
Benefit payments	<u>USD 83,600</u>	<u>USD 80,500</u>

The following weighted average assumptions were used in accounting for the plan years ended:

	Year Ended December 31,	
	2017	2016
Discount rate - Pension benefit obligation	3.75%	4.30%
Discount rate - Net periodic pension benefit cost	4.30%	4.45%

The assumed rate of increase for 2017 in the per capita cost of healthcare benefits was 6.00%, and it is assumed to grade down to 4.50% in 2027 and thereafter.

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE G - EMPLOYEE-BENEFIT PLANS (CONTINUED)

[2] Post-retirement medical benefits: (continued)

The healthcare cost-trend rate assumption has a significant effect on the amounts reported. Increasing the assumed healthcare cost-trend rate by 1% would increase the accumulated postretirement benefit obligation as of December 31, 2017 and 2016 by approximately USD 529,847 and USD 278,904, respectively, and would increase the aggregate of the service and interest components of 2017 and 2016 net periodic postretirement benefit cost by approximately USD 16,077 and USD 14,392, respectively. Decreasing the assumed health-care cost trend-rate by 1% would decrease the accumulated postretirement benefit obligation as of December 31, 2017 and 2016 by USD 415,293 and USD 233,070, respectively, and would decrease the aggregate of the service and interest components of the 2017 and 2016 net periodic postretirement-benefit cost by USD 13,438 and USD 11,931, respectively.

The following benefit payments (total benefits paid less participant contributions), which reflect expected future service, as appropriate, are expected to be paid as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	USD 95,000
2019	104,000
2020	110,000
2021	114,000
2022	139,000
2023 - 2027	779,000

NOTE H - TRAVEL OPERATIONS

AFS International provides travel services for partners and charges fees to assist participants in their travel as part of the exchange programs offered. The associated revenue and expense from the travel operation for the year ended December 31, 2017 and 2016 consisted of the following:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Travel operation sales	USD 2,877,824	USD 3,108,255
Less: cost of ticket sales	(2,556,542)	(2,780,649)
Less administrative expenses:		
Salaries, payroll taxes and related benefits	(264,047)	(265,535)
Other	(57,235)	(62,071)
	<u>USD 0</u>	<u>USD 0</u>

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE I - BOARD-DESIGNATED FUNDS

[1] Liability Fund:

The AFS network experiences a number of threatened lawsuits each year related to program operations. Partners in the network are responsible for the amount of any fee refunded to participants, but AFS International coordinates the defense of such claims, covers the cost of legal fees, and provides an indemnity to partners for settlement or judgment costs exceeding the participant fee. AFS International currently insures the risk of claim up to USD 11,000,000 with a variety of insurance policies, primarily with United Educators ("UE"), a reciprocal risk retention group. UE distributes profits to subscribers each year into a subscriber's savings account ("SSA"). AFS International received USD 91,885 and USD 89,240 in dividends for the year ended December 31, 2017 and 2016, respectively. The inputs used to value the SSA are Level 3 inputs in the fair value hierarchy. The SSA account is reported at estimates of fair value based upon the discounted cash flow method. A discount of approximately USD 105,000 and USD 94,000 for the years ended December 31, 2017 and 2016, respectively, was applied to determine the fair value of the deposit should AFS International decided to withdraw from UE.

At year-end, the activity of the unrestricted Liability Fund's net asset balances were as follows:

	December 31,	
	2017	2016
Beginning balance at January 1	USD 1,294,019	USD 1,451,944
Revenues:		
Fees from partner organizations	975,039	867,525
Dividends	91,885	89,240
Interest	228	445
Expenses	(1,089,078)	(1,115,135)
Ending balance at December 31	<u>USD 1,272,093</u>	<u>USD 1,294,019</u>

At each year-end, the analysis of the consolidated statement of financial position of the unrestricted Liability Fund was as follows:

	December 31,	
	2017	2016
Cash		USD 55,666
Collective insurance account, net	USD 1,062,841	1,000,568
Prepaid premiums	217,360	237,785
Accounts payable	(8,108)	
	<u>USD 1,272,093</u>	<u>USD 1,294,019</u>

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE I - BOARD-DESIGNATED FUNDS (CONTINUED)

[2] Participant Medical Fund:

AFS International operates a fully insured medical program that provides medical expense coverage to participant. AFS International bills partners based on an estimate of medical insurance cost, and fees are recognized on the accrual basis related to the program period. At year-end, the activity of the unrestricted Participant Medical Fund's net asset balances were as follows:

	December 31,	
	2017	2016
Beginning balance at January 1	USD 1,795,717	USD 1,431,678
Revenues:		
Deferred fees recognized	2,081,280	2,069,005
Fees from partner organizations	4,969,516	4,907,163
Less fees deferred	(2,083,030)	(2,081,280)
Interest	2,813	648
Expenses:		
Insurance premiums	(5,031,468)	(4,464,420)
Other expenses	(138,080)	(67,077)
Ending balance at December 31	<u>USD 1,596,748</u>	<u>USD 1,795,717</u>

At each year-end, the analysis of the consolidated statement of financial position of the unrestricted Participant Medical Fund was as follows:

	December 31,	
	2017	2016
Cash	USD 3,269,818	USD 3,500,349
Deferred fees from partner organizations	(2,083,030)	(2,081,280)
Prepaid premiums and other assets	409,960	376,648
	<u>USD 1,596,748</u>	<u>USD 1,795,717</u>

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE I - BOARD-DESIGNATED FUNDS (CONTINUED)

[3] International Emergency Fund:

The International Emergency Fund deals with extraordinary needs due to external circumstances affecting partners, such as natural disasters or political unrest that leads to significant curtailment or suspension of programs in a partner country if they cannot be managed by the partner's resources. At year-end, the activity of the unrestricted International Emergency Fund's net asset balances were as follows:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Beginning balance at January 1	USD 614,885	USD 594,713
Revenues:		
Interest	78,327	24,296
Unrealized gains (loss) on investments	<u>11,857</u>	<u>(4,124)</u>
Ending balance at December 31	<u>USD 705,069</u>	<u>USD 614,885</u>

At each year-end, the analysis of the consolidated statement of financial position of the unrestricted International Emergency Fund was as follows:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Cash	<u>USD 705,069</u>	<u>USD 614,885</u>

[4] Network Strategic Investment Fund:

The Network Strategic Investment Fund provides funding for projects that benefit the network. Fees from partners to the Network Strategic Investment Fund are established as part of the annual payments by partners to AFS International. At year-end, the activity of the unrestricted Network Strategic Investment Fund's net asset balances were as follows:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Beginning balance at January 1	USD 73,195	USD 119,074
Revenues:		
Fees from partner organizations	711,445	177,908
Interest	143	173
Expenses:		
Grants and other expenses	<u>(720,206)</u>	<u>(223,960)</u>
Ending balance at December 31	<u>USD 64,577</u>	<u>USD 73,195</u>

At each year-end, the analysis of the consolidated statement of financial position of the unrestricted Network Strategic Investment Fund was as follows:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Cash	<u>USD 64,577</u>	<u>USD 73,195</u>

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

During each year, net assets released from restrictions were due to the following:

	Year Ended December 31,	
	2017	2016
Program development and other	USD 393,057	USD 194,059
Sentio project	435,459	518,354
BP Citizens of Tomorrow	485,000	974,506
Diversity scholarship funds	57,823	115,525
John & Franca Pironti Lally Scholarship		25,164
Archives	7,654	29,744
Arthur Howe, Jr. Archival Project	6,495	13,850
	<u>USD 1,385,488</u>	<u>USD 1,871,202</u>

At each year-end, temporarily restricted net assets were restricted for the following:

	December 31,	
	2017	2016
Program development and other	USD 499,511	USD 637,544
Sentio project	66,350	54,874
BP Citizens of Tomorrow	32,400	
Diversity scholarship funds	79,813	29,069
John & Franca Pironti Lally Scholarship	57,491	23,405
Archives	12,702	15,296
Arthur Howe, Jr. Archival Project		6,445
	<u>USD 748,267</u>	<u>USD 766,633</u>

In 2016, Sentio goals were to further establish for itself a framework for governance, branding, and business development. At year-end, the activities of Sentio were as follows:

	December 31,	
	2017	2016
Beginning balance at January 1	USD 54,874	USD 155,032
Contribution from members:	446,156	415,523
Interest and other income	779	2,673
Net assets released from restrictions	(435,459)	(518,354)
Ending balance at December 31	<u>USD 66,350</u>	<u>USD 54,874</u>

At each year-end, the analysis of the consolidated statement of financial position of Sentio was as follows:

	December 31,	
	2017	2016
Cash	<u>USD 66,350</u>	<u>USD 54,874</u>
Temporarily restricted net assets - Sentio	<u>USD 66,350</u>	<u>USD 54,874</u>

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE K - THE ENDOWMENT

[1] The endowment:

At December 31, 2017 and 2016, AFS International's endowment fund consists of two donor-restricted funds to support student participation and AFS International operations.

[2] Interpretation of relevant law:

NYPMIFA is applicable to AFS International's endowment fund. The Board of Trustees will continue to adhere to NYPMIFA's requirements.

[3] Return objectives and risk parameters:

AFS International has adopted investment and spending policies for its endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that AFS International must hold in perpetuity.

[4] Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, AFS International relies on a general investment policy, subject to practical constraints, so as to provide a balance that will enhance total real return while avoiding undue risk concentration in any single asset class or investment category.

[5] Spending policy and relationship to the investment objectives:

In satisfaction of the respective donors' gift instruments, the Board appropriates the total earnings each year to cover student participation.

[6] Endowment net asset composition by type of fund as of each year-end:

	December 31,	
	2017	2016
John & Franca Pironti Lally Scholarship Endowment	USD 500,000	USD 500,000
Arthur Howe, Jr. Endowment Fund	71,000	70,550
Donor-restricted endowment funds	571,000	570,550
Beneficial interest in assets held by others (see Note E)	593,611	544,598
Total permanently restricted net assets	<u>USD 1,164,611</u>	<u>USD 1,115,148</u>

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE K - THE ENDOWMENT (CONTINUED)

[7] Changes in endowment net assets:

Changes in endowment net assets in each year were as follows:

	Year Ended December 31, 2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	USD 23,405	USD 570,550	USD 593,955
Contributions and income		450	450
Appropriation of endowment assets for expenditure	<u>(23,405)</u>	<u> </u>	<u>(23,405)</u>
Endowment assets, end of year	<u>USD 0</u>	<u>USD 571,000</u>	<u>USD 571,000</u>
	Year Ended December 31, 2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment assets, beginning of year	USD 25,164	USD 528,800	USD 553,964
Contributions and income	23,405	41,750	65,155
Appropriation of endowment assets for expenditure	<u>(25,164)</u>	<u> </u>	<u>(25,164)</u>
Endowment assets, end of year	<u>USD 23,405</u>	<u>USD 570,550</u>	<u>USD 593,955</u>

[8] Funds with deficiencies:

Due to unfavorable market fluctuations, from time to time the fair value of assets associated with individual donor-restricted endowment funds may decline below the historic dollar value of the donor's original permanently restricted contribution. Under the terms of NYPMIFA, AFS International has no responsibility to restore such decrease in value. There were no deficiencies in endowment funds in 2017 or in 2016.

NOTE L - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject AFS International to concentrations of credit risk consist principally of cash and cash equivalents in high-credit-quality financial institutions, the balances of which, from time to time, may exceed federal insurance limits. However, management operates within Board policies to manage counterparty risks to avoid significant risk of loss on these accounts that would be due to the failure of these institutions.

AFS INTERCULTURAL PROGRAMS, INC.

Notes to Consolidated Financial Statements December 31, 2017 and 2016

NOTE M - COMMITMENTS AND CONTINGENCIES

[1] Lease agreement:

In August 2017, AFS International entered into a lease agreement for office space located in New York, New York, through 2022. Rent expense under the leases was USD 430,000 and USD 385,000 for the years ended December 31, 2017 and 2016, respectively.

Future minimum rental payments under the lease arrangement are as follows:

<u>Year</u>	<u>Amount</u>
2018	USD 421,723
2019	432,266
2020	443,072
2021	454,149
2022	<u>268,744</u>
	<u>USD 2,019,954</u>

[2] Other contracts:

AFS International has entered into various contracts and agreements in the normal course of business operations.

[3] Letters of credit:

AFS International has a USD 80,681 unused letter of credit with a bank, which is a standard requirement of the travel industry. This letter of credit is collateralized by the investment portfolio of AFS International.