

**EISNERAMPER**

**AFS INTERCULTURAL PROGRAMS, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 and 2018**



# AFS INTERCULTURAL PROGRAMS, INC.

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
AFS Intercultural Programs, Inc.

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AFS Intercultural Programs, Inc. and its wholly controlled entity, (together "AFS International"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years 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 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 audits. We conducted our audits 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 consolidated 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 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 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 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. and its wholly controlled entity, as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



EISNERAMPER LLP  
New York, New York  
June 25, 2020



# AFS INTERCULTURAL PROGRAMS, INC.

## Consolidated Statements of Financial Position

	December 31,	
	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	USD 8,498,577	USD 7,515,705
Accounts receivable	321,825	602,729
Due from partner organizations in clearinghouse	747,076	503,719
Partner lines of credit outstanding, net	273,000	321,000
Investments	207,611	2,940,411
Collective insurance account, net	1,193,512	1,118,703
Prepaid expenses and other assets	1,756,560	952,910
Property and equipment, net	233,171	200,734
Beneficial interest in assets held by others	<u>603,992</u>	<u>530,499</u>
Total assets	<u><b>USD 13,835,324</b></u>	<u><b>USD 14,686,410</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	USD 1,293,974	USD 1,474,928
Due to partner organizations in clearinghouse	1,055,264	627,540
Deferred fees from partner organizations	2,056,830	2,314,642
Accrued postretirement benefit obligation	<u>1,319,299</u>	<u>1,090,751</u>
Total liabilities	<u><b>5,725,367</b></u>	<u><b>5,507,861</b></u>
Commitments and contingencies (Note M)		
Net assets:		
Without donor restrictions:		
Undesignated	3,467,425	4,040,963
Board designated:		
Liability fund	1,211,582	1,260,793
Participant medical fund	90,830	991,629
International emergency fund	729,046	638,638
Network strategic investment fund	131,977	-
Co-fund strategic initiative	<u>575,115</u>	<u>472,357</u>
Total net assets without donor restrictions	<u><b>6,205,975</b></u>	<u><b>7,404,380</b></u>
With donor restrictions:		
Time and purpose restrictions	728,990	672,670
Perpetual in nature	<u>1,174,992</u>	<u>1,101,499</u>
Total net assets with donor restrictions	<u><b>1,903,982</b></u>	<u><b>1,774,169</b></u>
Total net assets	<u><b>8,109,957</b></u>	<u><b>9,178,549</b></u>
	<u><b>USD 13,835,324</b></u>	<u><b>USD 14,686,410</b></u>

See notes to consolidated financial statements.

# AFS INTERCULTURAL PROGRAMS, INC.

## Consolidated Statements of Activities

	Year Ended December 31,					
	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Activities:</b>						
<b>Public support and revenue:</b>						
Fees from partner organizations	USD 12,608,141	USD -	USD 12,608,141	USD 12,375,389	USD -	USD 12,375,389
Donations	202,453	1,801,177	2,003,630	218,622	1,611,091	1,829,713
Travel operations	3,021,778	-	3,021,778	3,060,517	-	3,060,517
International conference fees and projects	1,051,017	-	1,051,017	761,510	-	761,510
Investment income (loss), net	531,922	69,996	601,918	(155,897)	(78,395)	(234,292)
Total public support and revenue before net assets released from restrictions	17,415,311	1,871,173	19,286,484	16,260,141	1,532,696	17,792,837
Net assets released from restrictions	1,814,853	(1,814,853)	-	1,608,293	(1,608,293)	-
Total public support and revenue	19,230,164	56,320	19,286,484	17,868,434	(75,597)	17,792,837
<b>Expenses:</b>						
Program services:						
Partner services	9,863,384	-	9,863,384	9,473,112	-	9,473,112
Participant medical fund	5,877,269	-	5,877,269	5,548,816	-	5,548,816
Liability fund	1,192,056	-	1,192,056	1,125,741	-	1,125,741
Network strategic investment fund	621,460	-	621,460	848,620	-	848,620
Co-fund strategic initiative	641,177	-	641,177	461,693	-	461,693
Total program services	18,195,346	-	18,195,346	17,457,982	-	17,457,982
Supporting services:						
Management and general	1,906,759	-	1,906,759	1,611,093	-	1,611,093
Fundraising	26,932	-	26,932	11,558	-	11,558
Total supporting services	1,933,691	-	1,933,691	1,622,651	-	1,622,651
Total expenses	20,129,037	-	20,129,037	19,080,633	-	19,080,633
<b>Change in net assets from operations</b>	(898,873)	56,320	(842,553)	(1,212,199)	(75,597)	(1,287,796)
<b>Non-operating activities:</b>						
Change in value of beneficial interest in assets held by others	-	73,493	73,493	-	(63,112)	(63,112)
Change in postretirement benefit obligation other than net periodic benefit cost	(299,532)	-	(299,532)	1,927,384	-	1,927,384
<b>Change in nets assets</b>	(1,198,405)	129,813	(1,068,592)	715,185	(138,709)	576,476
Net assets, beginning of year	7,404,380	1,774,169	9,178,549	6,689,195	1,912,878	8,602,073
<b>Net assets, end of year</b>	USD 6,205,975	USD 1,903,982	USD 8,109,957	USD 7,404,380	USD 1,774,169	USD 9,178,549

See notes to consolidated financial statements.

# AFS INTERCULTURAL PROGRAMS, INC.

## Consolidated Statement of Functional Expenses Year Ended December 31, 2019 (with summarized financial information for 2018)

	Program Services					Supporting Services				Total	
	Partner Services	Participant Medical Fund	Liability Fund	Network Strategic Investment Fund	Co-Fund Strategic Initiative	Total Program Services	Management and General	Fund- Raising	Total Supporting Services	2019	2018*
	Salaries, payroll taxes and fringe benefits	USD 2,815,955	USD 111,652	USD 276,842	USD 181,272	USD 177,550	USD 3,563,271	USD 562,735	USD 16,970	USD 579,705	USD 4,142,976
Professional fees	1,482,722	435	151,551	331,445	385,173	2,351,326	159,734	4,500	164,234	2,515,560	1,901,519
Occupancy	7,949	-	-	-	-	7,949	466,655	-	466,655	474,604	529,780
Insurance premiums	12,633	5,757,760	739,491	-	-	6,509,884	15,494	-	15,494	6,525,378	6,191,192
International meetings, field visits and lodging	683,103	3,342	13,091	68,239	60,897	828,672	69,792	546	70,338	899,010	881,987
Training and recognition	12,663	-	-	2,246	-	14,909	15,950	-	15,950	30,859	32,897
Office supplies	42,407	598	-	2,532	1,069	46,606	18,968	4,916	23,884	70,490	102,009
Equipment rental and maintenance	-	-	-	-	-	-	15,832	-	15,832	15,832	19,683
Financial support for partner programs	1,380,757	-	-	34,090	-	1,414,847	413,298	-	413,298	1,828,145	1,224,677
Telecommunications	435,499	-	-	883	15,378	451,760	25,354	-	25,354	477,114	364,713
Depreciation and amortization	101,564	-	-	-	-	101,564	101,564	-	101,564	203,128	171,308
Medical expenses	-	796	-	-	-	796	-	-	-	796	9,094
Cost of travel operations	2,655,444	-	-	-	-	2,655,444	-	-	-	2,655,444	2,760,457
Bad debt expense	-	-	-	-	-	-	18,000	-	18,000	18,000	-
Offsite storage	46,614	-	-	-	-	46,614	7,062	-	7,062	53,676	84,102
Printing	24,897	-	-	721	525	26,143	6,523	-	6,523	32,666	18,205
Bank charges	39,285	2,686	-	-	-	41,971	765	-	765	42,736	24,227
Miscellaneous	121,892	-	11,081	32	585	133,590	9,033	-	9,033	142,623	63,418
<b>Total expenses</b>	<b>USD 9,863,384</b>	<b>USD 5,877,269</b>	<b>USD 1,192,056</b>	<b>USD 621,460</b>	<b>USD 641,177</b>	<b>USD 18,195,346</b>	<b>USD 1,906,759</b>	<b>USD 26,932</b>	<b>USD 1,933,691</b>	<b>USD 20,129,037</b>	<b>USD 19,080,633</b>

\* See page 5 for details of the 2018 consolidated statement of functional expenses.

**AFS INTERCULTURAL PROGRAMS, INC.**

**Consolidated Statement of Functional Expenses  
Year Ended December 31, 2018**

	Program Services					Supporting Services				Total
	Partner Services	Participant Medical Fund	Liability Fund	Network Strategic Investment Fund	Co-Fund Strategic Initiative	Total Program Services	Management and General	Fund-Raising	Total Supporting Services	
Salaries, payroll taxes and fringe benefits	USD 3,078,733	USD 83,915	USD 275,223	USD 353,358	USD 243,596	USD 4,034,825	USD 658,742	USD 7,798	USD 666,540	USD 4,701,365
Professional fees	1,023,728	3,020	164,176	399,326	123,820	1,714,070	187,386	63	187,449	1,901,519
Occupancy	84,041	-	-	-	-	84,041	445,739	-	445,739	529,780
Insurance premiums	48,266	5,449,635	675,962	-	-	6,173,863	17,329	-	17,329	6,191,192
International meetings, field visits and lodging	627,203	336	10,288	87,254	87,659	812,740	69,089	158	69,247	881,987
Training and recognition	2,450	-	-	200	1,600	4,250	28,647	-	28,647	32,897
Office supplies	47,837	-	-	-	-	47,837	50,633	3,539	54,172	102,009
Equipment rental and maintenance	3,938	-	-	-	-	3,938	15,745	-	15,745	19,683
Financial support for partner programs	1,222,177	-	-	-	2,500	1,224,677	-	-	-	1,224,677
Telecommunications	338,617	-	-	111	1300	340,028	24,685	-	24,685	364,713
Depreciation and amortization	85,654	-	-	-	-	85,654	85,654	-	85,654	171,308
Medical expenses	-	9,094	-	-	-	9,094	-	-	-	9,094
Cost of travel operations	2,760,457	-	-	-	-	2,760,457	-	-	-	2,760,457
Offsite storage	70,635	-	-	-	-	70,635	13,467	-	13,467	84,102
Printing	16,969	-	-	-	-	16,969	1,236	-	1,236	18,205
Bank charges	22,860	64	-	-	-	22,924	1,303	-	1,303	24,227
Miscellaneous	39,547	2,752	92	8,371	1,218	51,980	11,438	-	11,438	63,418
<b>Total expenses</b>	<b>USD 9,473,112</b>	<b>USD 5,548,816</b>	<b>USD 1,125,741</b>	<b>USD 848,620</b>	<b>USD 461,693</b>	<b>USD 17,457,982</b>	<b>USD 1,611,093</b>	<b>USD 11,558</b>	<b>USD 1,622,651</b>	<b>USD 19,080,633</b>

See notes to consolidated financial statements.

# AFS INTERCULTURAL PROGRAMS, INC.

## Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Change in net assets	USD (1,068,592)	USD 576,476
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	203,128	171,308
Donated securities	(12,566)	-
Proceeds from donated securities	12,566	-
Net realized and unrealized (gains) losses on investments	(457,413)	404,794
Change in value of beneficial interest in assets held by others	(73,493)	63,112
Bad debt expense	18,000	-
Changes in:		
Accounts receivable	280,904	(66,086)
Due from partner organizations in clearinghouse	(243,357)	344,079
Collective insurance account, net	(74,809)	(55,862)
Prepaid expenses and other assets	(803,650)	177,011
Accounts payable and accrued expenses	(180,954)	796,318
Due to partner organizations in clearinghouse	427,724	258,935
Deferred fees from partner organizations	(257,812)	198,112
Accrued postretirement benefit obligation	228,548	(1,846,164)
Net cash (used in) provided by operating activities	<u>(2,001,776)</u>	<u>1,022,033</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(235,565)	(166,809)
Purchases of investments	(84,257)	(136,144)
Proceeds from sales of investments	3,274,470	161,109
Net cash provided by (used in) investing activities	<u>2,954,648</u>	<u>(141,844)</u>
<b>Cash flows from financing activities:</b>		
Partner lines of credit advances	(120,000)	(80,000)
Partner lines of credit repayments	150,000	139,440
Net cash provided by financing activities	<u>30,000</u>	<u>59,440</u>
<b>Increase in cash and cash equivalents</b>	<b>982,872</b>	<b>939,629</b>
Cash and cash equivalents, beginning of year	<u>7,515,705</u>	<u>6,576,076</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>USD 8,498,577</u></b>	<b><u>USD 7,515,705</u></b>
<b>Supplemental disclosure of cash flow information:</b>		
Taxes paid	<u>USD 18,000</u>	

See notes to consolidated financial statements.

## **AFS INTERCULTURAL PROGRAMS, INC.**

### **Notes to Consolidated Financial Statements December 31, 2019 and 2018**

#### **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 on legal form that is known as a partnership under the laws of some countries, including the United States. At December 31, 2019 and 2018, there were 49 and 50 partners, respectively.

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. These revenues 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 consolidated financial statements. Total amounts cleared for the benefit of partners in the clearinghouse for the years ended December 31, 2019 and 2018 were approximately USD 37,530,000 and USD 37,690,000, respectively.

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".

The AFS trademarks are held by the AFS Foundation (the "Foundation"), a related party 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 its trademarks worldwide, and for sublicensing the trademarks to partners and other organization affiliated with AFS Intercultural Programs, Inc. Amortization of trademarks is provided using the straight-line basis of the estimated useful life of the asset which is ten years. At December 31, 2019 and 2018, respectively, the net accumulated amortization of the trademark was USD 34,457 and USD 26,634, respectively. There were no material revenues or expenses between the two entities for either of the years ended December 31, 2019 or 2018. 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.

## **AFS INTERCULTURAL PROGRAMS, INC.**

### **Notes to Consolidated Financial Statements December 31, 2019 and 2018**

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

##### **[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.

##### **[3] Use of estimates:**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts 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, equity securities and mutual funds. Purchases of long-term certificates of deposit with maturities of four months or more are included in AFS International's investment portfolio and are reported at fair value. Equity securities and exchange traded equity mutual funds are reported at fair value based on quoted market prices.

AFS International had invested in a multi-asset fund for which a readily determinable fair value did not exist. The fair value of the multi-asset fund was 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 monitored 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 believed the carrying amount of the investment in a non-publicly traded security was a reasonable estimate of its fair value. However, the estimated fair value may have differed significantly from the value that would have been used had a ready market for this security existed. During 2019, AFS International liquidated its holding of this investment.

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 net assets without donor restrictions. Realized gains and losses on investments are determined by comparison of the cost at 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 investment fees are embedded in various other investment accounts and transactions as part of its mutual fund portfolio are included as part of that investment's acquisition cost.

Donated securities are recorded at their estimated fair values at the dates of donation, with realized gains and losses recorded when the securities are sold. AFS International's policy is to sell donated securities immediately upon receipt, 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. There were no donated securities in 2018.

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### 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, net of accumulated depreciation and amortization. Minor costs of minor repairs and maintenance are expensed as incurred. AFS International capitalizes items of property and equipment that have a cost of USD 1,500 or more and a useful life greater than one year. Depreciation of furniture 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, 2019 and 2018, 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. At December 31, 2019 and 2018, this accrued vacation obligation was approximately USD 80,000 and USD 101,000, respectively, and was reported in the accompanying consolidated statements of financial position as a part of accounts payable and accrued expenses.

##### [8] Net assets:

AFS International's net assets and changes therein are classified and reported as follows:

(i) *Net assets without donor restrictions:*

Net assets without donor restrictions represent those resources for which there are no restrictions by donors and are therefore available for current operations. The Board of Trustees has allocated a portion of these net assets without donor restrictions to act as board-designated funds for program purposes (see Note J).

(ii) *Net assets with donor restrictions:*

Net assets with donor restrictions represent those resources that are subject to donor imposed restrictions, such as specific purposes and/or the passage of time. Also included within net assets with donor restrictions are donor restrictions that are perpetual in nature and subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). These donors have stipulated that those resources be maintained in perpetuity with the resultant income and net capital appreciation arising from the underlying assets to be used in satisfaction of the wishes of those donors.

Net assets released from restrictions represent one of the following: (i) appropriations for expenditure by the Board of Trustees; (ii) the satisfaction of the restricted purposes specified by the donors; (iii) or the passage of time, and are reclassified as net assets without donor restrictions and are reported in the consolidated statements of activities as "net assets released from restriction."

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

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

##### [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 5,159,000 and USD 5,182,000 for the years ended December 31, 2019 and 2018, 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 medical fees relating to the future year are deferred. In addition, partners also pay an annual fee to AFS International, related to 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 years ended December 31, 2019 and 2018, were USD 7,463,000 and USD 7,193,000, respectively. Surplus on these funds at the end of each year have been recorded as deferred for use in future periods.

###### (ii) Donations and grants:

Donations and grants to AFS International are recognized as revenue upon the receipt of cash or other assets or of unconditional pledges. Donations and grants are recorded as "with donor restriction" if they are received with purpose restrictions or time consideration as to their use. Donations and grants to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved. AFS International periodically assesses collectability of its donations and receivables using management's judgment of potential defaults, which considers factors such as prior collection history, type of contribution, and the nature of fund-raising activity and provides allowances for anticipated losses, if any, when necessary.

###### (iii) International conference fees:

AFS International recognizes revenues from conferences when the conferences take place. Any fees collected in advance of the event are deferred.

###### (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.

##### [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.

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

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

##### [11] Functional allocation of expenses:

AFS International's consolidated financial statements report certain categories of expenses that are attributable to program and supporting services of AFS International. These costs have been summarized on a functional and natural classification in the consolidated statements of functional expenses. Accordingly, certain costs that are directly attributable to a specific functional area of AFS International are reported as an expense to the appropriate program or supporting service. Natural expenses attributable to more than one functional expense category have been allocated among the programs and supporting services based on the time spent by employees and the nature of the expense. The expenses that are allocated include professional fees, insurance premiums, international meetings, field visits and lodging, financial support for partner organizations, and depreciation and amortization.

##### [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 costs.

##### [13] Income taxes:

AFS International is subject to the provisions of the 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, management believes ASC Topic 740 has not had, and is not expected to have, a material impact on AFS International's consolidated financial statements.

##### [14] Adoption of accounting principles:

###### (i) *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made:*

In June 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 985)*. ASU 2018-08 clarifies and improves guidance concerning: 1) evaluating whether a transaction should be accounted for as an exchange transaction or as a contribution; and 2) determining whether a contribution received is conditional. ASU 2018-08 is effective for annual periods beginning after December 15, 2018 for entities that are resource recipients and periods beginning after December 15, 2019 for entities that are resource providers. ASU No. 2018-08 should be applied on a modified prospective basis. AFS International adopted the resource recipient portion and early-adopted the resource provider portion of the standard for its year ended December 31, 2019 and this accounting guidance did not have a material effect on AFS International's consolidated financial statements.

###### (ii) *Disclosure Requirements for Fair Value Measurement:*

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, which modified the disclosure requirements for fair value measurements and is effective for years beginning after December 15, 2019, with early adoption permitted. The effect of adopting this accounting guidance will result in the removal or modification of certain fair value measurement disclosures presented in AFS International's consolidated financial statements. AFS International early-adopted this pronouncement as of December 31, 2019, which under U.S. GAAP is a change in accounting principle requiring retroactive application in the consolidated financial statements for all periods presented.

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

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

##### [15] Upcoming accounting pronouncements:

(i) *Revenue from Contracts with Customers:*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 enhances revenue related disclosures. The new standard is effective for fiscal years beginning after December 15, 2019. Accordingly, AFS International will adopt this pronouncement for 2020. AFS International is currently evaluating the effect that this new guidance will have on the consolidated financial statements and related disclosures.

(ii) *Leases:*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require entities to recognize lease assets and lease liabilities (related to leases previously classified as operating under previous U.S. GAAP) on the statements of financial position. The ASU will be effective for AFS International commencing January 1, 2022. AFS International is currently evaluating the effect that this new guidance will have on the consolidated financial statements and related disclosures.

##### [16] Subsequent events:

AFS International evaluated subsequent events through June 25, 2020, the date on which the consolidated financial statements were available to be issued.

#### 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 2019 or in 2018.

#### NOTE C - INVESTMENTS

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

	December 31,			
	2019		2018	
	Fair Value	Cost	Fair Value	Cost
Certificates of deposit	USD 164,131	USD 164,131	USD 80,803	USD 80,925
Equity securities	13,026	12,688	-	-
Mutual fund – equity fund	30,454	29,405	29,231	29,350
Mutual fund – multi-asset fund	-	-	2,830,377	3,683,379
	<u>USD 207,611</u>	<u>USD 206,224</u>	<u>USD 2,940,411</u>	<u>USD 3,793,654</u>

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### NOTE C - INVESTMENTS (CONTINUED)

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

	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Dividends and interest	<b>USD 144,505</b>	USD 170,502
Net realized (losses) gains on sale of investments	<b>(397,217)</b>	160,244
Net unrealized gains (losses) on investments	<b>854,630</b>	(565,038)
	<b><u>USD 601,918</u></b>	<b><u>USD (234,292)</u></b>

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 identical 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.

During 2018, AFS International had investments that were valued using NAV or its equivalent as a practical expedient of fair value. This applied to investments which: (i) did 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 had the attributes of an investment company. Investments that were valued using NAV were not required to be categorized within the fair value hierarchy. Accordingly, those investments were excluded from the fair-value hierarchy.

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.

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:

	<u>December 31, 2019</u>			
	<u>Amounts Within Fair-Value</u>			<u>Total</u>
	<u>Hierarchy</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>	<u>Investments</u>
Certificates of deposit	USD -	USD 164,131	USD 164,131	USD 164,131
Equity securities	13,026	-	13,026	13,026
Mutual fund - equity fund	-	30,454	30,454	30,454
	<b><u>USD 13,026</u></b>	<b><u>USD 194,585</u></b>	<b><u>USD 207,611</u></b>	<b><u>USD 207,611</u></b>

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### NOTE C - INVESTMENTS (CONTINUED)

	December 31, 2018							
	Amounts Within Fair-Value Hierarchy							
	Level 2		Total		Measured at NAV	Total Investments		
Certificates of deposit	USD	80,803	USD	80,803	USD	-	USD	80,803
Mutual fund - equity fund		29,231		29,231		-		29,231
Mutual fund - multi-asset fund		-		-		2,830,377		2,830,377
	<u>USD</u>	<u>110,034</u>	<u>USD</u>	<u>110,034</u>	<u>USD</u>	<u>2,830,077</u>	<u>USD</u>	<u>2,940,411</u>

#### NOTE D - PROPERTY AND EQUIPMENT

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

	December 31,	
	2019	2018
Furniture	USD 62,201	USD 62,201
Equipment	733,576	505,834
Leasehold improvements	<u>550,243</u>	<u>550,243</u>
	1,346,020	1,118,278
Less: accumulated depreciation and amortization	<u>(1,112,849)</u>	<u>(917,544)</u>
	<u>USD 233,171</u>	<u>USD 200,734</u>

During 2018, AFS International disposed of fully-depreciated furniture and equipment no longer in use of USD 9,537.

#### 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 AFS International's interest in their fair value was USD 603,992 and USD 530,499 at December 31, 2019 and 2018, respectively. During 2019 and 2018, respectively, AFS International received distributions from the Trust in the amounts aggregating USD 46,867 and USD 57,000, respectively. The change in the value of the beneficial interest is recorded in net assets with donor restrictions.

At December 31, 2019 and 2018, AFS International's beneficial interest in assets held by others is classified at Level 3 in the fair value hierarchy.

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### NOTE E - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS (CONTINUED)

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, 2019 are as follows:

Type	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Beneficial interest in Trust assets held by others	USD 603,992	Market approach	Fair value of remainder portion of Trust assets	N/A

#### 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 600,000 and USD 1,020,000 at December 31, 2019 and 2018, respectively, of which USD 600,000 and USD 810,000 was drawn down in 2019 and 2018, respectively. The outstanding balances on these lines of credit bear interest at prime plus 1% which was 5.75% and 6.5% at December 31, 2019 and 2018, respectively, and the lines of credit are extending through various dates in 2020. For 2019 and 2018, total interest earned was approximately USD 13,000 and USD 42,000, respectively. Beginning in September 2019, AFS International did not charge interest on the lines of credit. In December 31, 2019 and 2018, partners' lines of credit receivable, net of allowances of uncollectible amounts were outstanding from various partners as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Partners' lines of credit outstanding	<b>USD 600,000</b>	USD 810,000
Less: allowances for uncollectible accounts	<u>(327,000)</u>	<u>(489,000)</u>
	<b><u>USD 273,000</u></b>	<b><u>USD 321,000</u></b>

#### 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 2019 and 2018 amounted to USD 200,116 and USD 232,713, respectively. AFS International's policy is to fund the plan currently.

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### NOTE G - EMPLOYEE-BENEFIT PLANS (CONTINUED)

##### [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.

Effective September 30, 2018, AFS International terminated their current health plan with their former provider and offered a plan with a new provider. All Medicare retirees wishing to continue medical coverage with AFS International need to buy a replacement plan supplemental to Medicare Parts A and B in the private market. For prescription drug coverage, the Medicare retirees need to buy a Medicare Part D plan in the private market. Pre-Medicare retirees will be eligible to continue the active medical plan, with plans provided by a new provider, until they reach age 65.

Effective October 1, 2018, AFS International will reimburse grandfathered retirees under Medicare and any covered spouse up to the cost of Medicare supplement plan G in the retiree's state of residence. AFS International will also reimburse the retiree and any covered spouse up to a flat USD 60 per month for the drug plan. For spouses over age 65, there is a monthly contribution of USD 25. AFS International will pay Pre-Medicare grandfathered retirees for 100% of the premium rates. Effective October 1, 2018, AFS International reduced the monthly subsidy from USD 300 per month to USD 150 per month for Medicare and Pre-Medicare non-Grandfathered retirees. This subsidy is expected to remain flat. Non-grandfathered participants will need to pay the total cost of the Plan less USD 150 per month. Those covering a spouse do not receive a greater subsidy.

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

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Accumulated postretirement benefit obligation	<b>USD (1,319,299)</b>	USD (1,090,751)
Plan assets at fair value	<u>-</u>	<u>-</u>
Accrued postretirement benefit costs	<b>USD (1,319,299)</b>	USD (1,090,751)
Adjustment to net assets reported in the consolidated statements of activities:		
Net (loss) gain	<b><u>USD (299,532)</u></b>	<u>USD 1,927,384</u>

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### NOTE G - EMPLOYEE-BENEFIT PLANS (CONTINUED)

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

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

	Year Ended December 31,	
	2019	2018
Service cost	USD 3,372	USD 14,904
Interest cost	49,167	105,674
Amortization of prior service cost	(203,085)	(91,566)
Amortization of net loss	<u>119,385</u>	<u>128,908</u>
Net periodic postretirement benefit cost	<u>USD (31,161)</u>	<u>USD 157,920</u>
Benefit payments	<u>USD 39,823</u>	<u>USD 76,700</u>

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

	Year Ended December 31,	
	2019	2018
Discount rate - Pension benefit obligation	3.35%	4.35%
Discount rate - Net periodic pension benefit cost	4.35%	3.75%/4.30%

The assumed rate of increase for 2019 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.

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, 2019 and 2018 by approximately USD 164,708 and USD 136,457, respectively, and would increase the aggregate of the service and interest components of 2019 and 2018 net periodic postretirement benefit cost by approximately USD 5,856 and USD 21,368, respectively. Decreasing the assumed health-care cost trend-rate by 1% would decrease the accumulated postretirement benefit obligation as of December 31, 2019 and 2018 by USD 138,309 and USD 114,847, respectively, and would decrease the aggregate of the service and interest components of the 2019 and 2018 net periodic postretirement-benefit cost by USD 4,948 and USD 16,712, respectively.

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

Year Ending December 31,	Amount
2020	USD 49,000
2021	54,000
2022	60,000
2023	63,000
2024	58,000
2025 - 2029	355,000

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### NOTE H - TRAVEL OPERATIONS

AFS International provides travel services within the United States ("U.S.") and departures from the U.S. 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 years ended December 31, 2019 and 2018 consisted of the following:

	December 31,	
	2019	2018
Travel operation sales	USD 3,021,778	USD 3,060,517
Less: cost of travel operations	(2,655,444)	(2,760,457)
Less: administrative expenses:		
Salaries, payroll taxes and related benefits	(270,422)	(275,541)
Other	(95,912)	(24,519)
	<u>USD -</u>	<u>USD -</u>

#### 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 107,512 and USD 77,786 in dividends for the years ended December 31, 2019 and 2018, 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 117,000 and USD 106,000 for the years ended December 31, 2019 and 2018, 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 Liability Fund's net asset balances were as follows:

	December 31,	
	2019	2018
Beginning balance at January 1	USD 1,260,793	USD 1,272,093
Revenues:		
Fees from partner organizations	1,035,333	1,036,283
Dividends	107,512	77,876
Interest	-	282
Expenses	<u>(1,192,056)</u>	<u>(1,125,741)</u>
Ending balance at December 31	<u>USD 1,211,582</u>	<u>USD 1,260,793</u>

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### NOTE I - BOARD-DESIGNATED FUNDS (CONTINUED)

##### [1] Liability Fund: (continued)

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

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Collective insurance account, net	USD 1,193,512	USD 1,118,703
Prepaid premiums	254,304	285,476
Accounts payable	<u>(236,234)</u>	<u>(143,386)</u>
	<u>USD 1,211,582</u>	<u>USD 1,260,793</u>

##### [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 Participant Medical Fund's net asset balances were as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance at January 1	USD 991,629	USD 1,596,748
Revenues:		
Deferred fees recognized	1,833,425	2,083,030
Fees from partner organizations	5,170,080	4,678,427
Less fees deferred	(2,040,330)	(1,833,426)
Interest	13,296	15,636
Expenses:		
Insurance premiums	(5,757,760)	(5,449,635)
Other expenses	<u>(119,510)</u>	<u>(99,151)</u>
Ending balance at December 31	<u>USD 90,830</u>	<u>USD 991,629</u>

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

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash	USD 1,715,080	USD 2,423,381
Deferred fees from partner organizations	(2,040,330)	(1,833,426)
Prepaid premiums and other assets	<u>416,080</u>	<u>401,674</u>
	<u>USD 90,830</u>	<u>USD 991,629</u>

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### 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 International Emergency Fund's net asset balances were as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance at January 1	USD 638,638	USD 705,069
Revenues:		
Interest	-	45,674
Unrealized gains (losses) on investments	<u>90,408</u>	<u>(112,105)</u>
Ending balance at December 31	<u>USD 729,046</u>	<u>USD 638,638</u>

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

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash	<u>USD 729,046</u>	<u>USD 638,638</u>

##### [4] Network Strategic Investment Fund:

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

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance at January 1	USD -	USD 64,577
Revenues:		
Fees from partner organizations	955,489	606,132
Interest	433	426
Expenses:		
Cost of projects	<u>(823,945)</u>	<u>(671,135)</u>
Ending balance at December 31	<u>USD 131,977</u>	<u>USD -</u>

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

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash	<u>USD 131,977</u>	<u>USD -</u>

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### NOTE I - BOARD-DESIGNATED FUNDS (CONTINUED)

##### [5] Co-Fund Strategic Initiative:

The Future AFS Co-Fund (the "Co-Fund Strategic Initiative") provides funding to finance strategic investments for the AFS network beyond renewal of existing activities that are primarily financed by NSIF. The Co-Fund Strategic Initiative focuses on implementation of the future AFS International strategy through new initiatives, such as program models, new market development, educational products for use outside of the AFS International network, etc. Contributions to the Co-Fund Strategic Initiative are voluntary and AFS International will match 50% of pledges from partner organizations up to a maximum of USD 2,000,000. At year-end, the activity of the Co-Fund's net asset balances were as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance at January 1	USD 472,357	USD -
Revenues:		
Contributions from partner organizations	495,956	622,700
Transfers from funds	247,978	311,350
Expenses:		
Cost of projects	<u>(641,176)</u>	<u>(461,693)</u>
Ending balance at December 31	<u>USD 575,115</u>	<u>USD 472,357</u>

At each year-end, the analysis of the consolidated statement of financial position of the Co-Fund Strategic Initiative was as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash	<u>USD 575,115</u>	<u>USD 472,357</u>

#### NOTE J - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>Year Ended</u> <u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Purpose restrictions satisfied:		
Program development and other	USD 627,763	USD 624,065
Sentio project	427,090	392,076
BP Citizens of Tomorrow	675,000	586,981
Faces of the World	<u>85,000</u>	<u>5,171</u>
	<u>USD 1,814,853</u>	<u>USD 1,608,293</u>

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### NOTE J - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

At each year-end, net assets with donor restrictions were for the following:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Purpose restricted:		
Program development and other	USD 463,805	USD 383,021
Sentio project	72,574	130,412
Faces of the World	156,058	192,706
Archives	17,312	17,286
Amounts subject to appropriation	<u>19,241</u>	<u>(50,755)</u>
	<b>728,990</b>	672,670
Perpetual in nature:		
Donor-restricted endowment funds	<u>1,174,992</u>	<u>1,101,499</u>
	<b><u>USD 1,903,982</u></b>	<b><u>USD 1,774,169</u></b>

Sentio's 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:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Beginning balance at January 1	USD 130,412	USD 66,350
Contribution from members:	369,250	456,136
Interest and other income	2	2
Net assets released from restrictions	<u>(427,090)</u>	<u>(392,076)</u>
Ending balance at December 31	<b><u>USD 72,574</u></b>	<b><u>USD 130,412</u></b>

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

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash	<b><u>USD 72,574</u></b>	<b><u>USD 130,412</u></b>

#### NOTE K - THE ENDOWMENT

##### [1] The endowment:

At December 31, 2019 and 2018, 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.

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### NOTE K - THE ENDOWMENT (CONTINUED)

##### [3] Return objectives and risk parameters:

The Board of Trustees of 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. AFS International suspended its spending rate for both 2019 and 2018, respectively.

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

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
John & Franca Pironti Lally Scholarship Endowment Fund	<b>USD 500,000</b>	USD 500,000
Arthur Howe, Jr. Endowment Fund	<u>71,000</u>	<u>71,000</u>
Donor-restricted endowment funds	<b>571,000</b>	571,000
Beneficial interest in assets held by others (see Note E)	<u>603,992</u>	<u>530,499</u>
	<b><u>USD 1,174,992</u></b>	<b><u>USD 1,101,499</u></b>

##### [7] Changes in endowment net assets:

Changes in endowment net assets with donor restrictions in each year were as follows:

	<u>Year Ended December 31, 2019</u>		
	<u>Amounts Subject to Appropriation</u>	<u>Amounts Held in Perpetuity</u>	<u>Total</u>
Endowment assets, beginning of year	<b>USD (50,755)</b>	<b>USD 571,000</b>	<b>USD 520,245</b>
Interest and dividends	<b>2,536</b>	-	<b>2,536</b>
Unrealized gains	<u>67,460</u>	-	<u>67,460</u>
Endowment assets, end of year	<b><u>USD 19,241</u></b>	<b><u>USD 571,000</u></b>	<b><u>USD 590,241</u></b>

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### NOTE K - THE ENDOWMENT (CONTINUED)

##### [7] Changes in endowment net assets: (continued)

	Year Ended December 31, 2018		
	Amounts Subject to Appropriation	Amounts Held in Perpetuity	Total
Endowment assets, beginning of year	USD -	USD 571,000	USD 571,000
Interest and dividends	35,342	-	35,342
Unrealized losses	<u>(86,097)</u>	<u>-</u>	<u>(86,097)</u>
Endowment assets, end of year	<u>USD (50,755)</u>	<u>USD 571,000</u>	<u>USD 520,245</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. As of December 31, 2018, deficiencies existed in two donor-restricted endowment funds which had original contribution values totaling USD 500,000, a current fair value of USD 449,245, thereby causing a deficiency of USD 50,755. Under the terms of NYPMIFA, AFS International has no responsibility to restore such decreases in value. As of December 31, 2019, there were no deficiencies in the endowment funds.

#### 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, 2019 and 2018

#### 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. In addition, in November 2019, AFS International entered into a lease agreement for new office facilities in New York, New York, commencing in 2020 and expiring in 2035. Rent expense under the leases was USD 480,000 and USD 480,000 for the years ended December 31, 2019 and 2018, respectively.

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

<u>Year</u>	<u>Amount</u>
2020	USD 580,115
2021	865,277
2022	679,872
2023	411,128
2024	411,128
2025-2035	<u>4,385,366</u>
	<u>USD 7,322,886</u>

##### [2] Letters of credit:

In 2019, AFS International maintained two unused letters of credit with a bank totaling USD 164,131 for its new lease entered into in 2019 and as part of standard requirements of the travel industry. In 2018, AFS International maintained one unused letter of credit with a bank of USD 80,803, for which is a standard requirement of the travel industry. These letters of credit are collateralized by the certificates of deposit maintained in the investment portfolio of AFS International.

##### [3] Contingencies:

AFS International may occasionally be a defendant with respect to various claims involving issues arising in the normal course of its business. In the opinion of management and its legal counsel, the resolution of these complaints will not have a material impact on the financial position or results of operations of AFS International.

##### [4] COVID-19:

The extent of the impact and effects of the recent outbreak of the coronavirus ("COVID-19") on the operation and financial performance of AFS International will depend on future developments, including the duration and spread of the outbreak, related travel advisories and restrictions which in turn affect the various exchange programs, all of which are highly uncertain and cannot be predicted. Nevertheless, AFS International makes effective arrangements for safeguarding the viability of the operation by reducing fixed costs, applying for available government bailout funds and conducting extensive fundraising activity. However, we note that the operation is significantly dependent on the financial viability of the AFS Network and on each partner's liquidity as almost all revenues of AFS International are collected from them. The interdependency of the AFS Network makes the impact of the COVID-19 even more challenging and unpredictable. If the demand for AFS International's services are impacted by this outbreak for an extended period, the results of operations may be materially adversely affected.

## AFS INTERCULTURAL PROGRAMS, INC.

### Notes to Consolidated Financial Statements December 31, 2019 and 2018

#### NOTE N - LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects AFS International's financial assets as of December 31, 2019 and 2018, respectively, reduced by amounts not available for general use within one year of December 31, 2019 and 2018, respectively, because of donor-imposed restrictions or internal designations. Amounts not available include amounts set aside by the Board of Trustees for future uses of AFS International.

AFS International's financial assets available for general expenditure within one year of consolidated statements of financial position date are as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	USD 8,498,577	USD 7,515,705
Accounts receivable	321,825	602,729
Due from partner organizations in clearinghouse	747,076	503,719
Investments	207,611	2,940,411
Collective insurance account	<u>1,193,512</u>	<u>1,118,703</u>
 Total financial assets available within one year	 <u>10,968,601</u>	 <u>12,681,267</u>
 Less: amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with:		
Purpose and time restrictions	(728,990)	(672,670)
Perpetual in nature	<u>(571,000)</u>	<u>(571,000)</u>
	<u>(1,299,990)</u>	<u>(1,243,670)</u>
 Amounts unavailable to management without Board's approval:		
Board-designated	<u>(2,738,550)</u>	<u>(3,363,417)</u>
 Total financial assets available to meet cash needs for general expenditures within one year	 <u>USD 6,930,061</u>	 <u>USD 8,074,180</u>

#### Liquidity policy:

AFS International has a policy to structure its financial assets to maintain a sufficient level of operating cash to be available as its general expenditures, liabilities, and other obligations come due as part of AFS International's liquidity management. Additionally, AFS International has Board-designated funds whereby amounts could be made available for current operations, if necessary; however, AFS International does not intend to spend these funds for purposes other than those approved by the Board of Trustees.