

**Audited Financial Statements
and Supplementary Information**

AIR FORCE AID SOCIETY, INC.

December 31, 2017

Air Force Aid Society, Inc.

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Independent Auditor’s Report on the Financial Statements

To the Board of Trustees
Air Force Aid Society, Inc.

We have audited the accompanying financial statements of the Air Force Aid Society, Inc. (the Society), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Air Force Aid Society, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Air Force Aid Society, Inc.

Statements of Financial Position

<i>December 31,</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 2,100,252	\$ 2,530,149
Investments	200,415,243	181,424,438
Emergency assistance and education loans receivable, net	3,752,994	3,746,272
Pledges receivable	75,929	146,458
Other assets	143,518	226,727
Property and equipment, net	737,367	794,612
Total assets	\$ 207,225,303	\$ 188,868,656
 Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	\$ 282,135	\$ 307,016
Other liabilities	919,479	1,378,830
Total liabilities	1,201,614	1,685,846
Net assets		
Unrestricted	203,656,963	184,791,711
Temporarily restricted	448,922	509,295
Permanently restricted	1,917,804	1,881,804
Total net assets	206,023,689	187,182,810
Commitments and contingencies	-	-
Total liabilities and net assets	\$ 207,225,303	\$ 188,868,656

See notes to the financial statements.

Air Force Aid Society, Inc.

Statements of Activities

Year Ended December 31,	2017	2016
Unrestricted activities		
Operating revenues		
Contributions:		
Air Force Assistance Fund	\$ 2,749,633	\$ 3,217,710
Other donations	2,120,461	1,484,319
Total contributions	4,870,094	4,702,029
Investment return designated for current operations	8,942,800	8,933,400
Other	6,083	1,989
Net assets released from restriction	208,557	91,008
Total operating revenues	14,027,534	13,728,426
Expenses		
Program services		
Educational assistance	6,319,192	6,713,240
Emergency assistance	3,169,894	3,200,713
Community enhancement	1,536,734	1,575,706
Total program services expenses	11,025,820	11,489,659
Supporting services		
Management and general	1,267,613	1,341,831
Fundraising	721,003	578,867
Total supporting services	1,988,616	1,920,698
Total operating expenses	13,014,436	13,410,357
Change in unrestricted net assets from operations	1,013,098	318,069
Nonoperating activities		
Post-retirement benefits charges other than net periodic cost	-	(51,250)
Allowance for doubtful accounts estimate adjustment	-	17,890
Investment return in excess of amounts designated for current operations	17,852,154	4,848,509
Change in unrestricted net assets	18,865,252	5,133,218
Temporarily restricted activities		
Contributions	148,184	509,295
Net assets released from restriction	(208,557)	(91,008)
Change in temporarily restricted net assets	(60,373)	418,287
Permanently restricted activities		
Contributions	36,000	70,000
Change in permanently restricted net assets	36,000	70,000
Change in net assets	18,840,879	5,621,505
Net assets, beginning of year	187,182,810	181,561,305
Net assets, end of year	\$ 206,023,689	\$ 187,182,810

See notes to the financial statements.

Air Force Aid Society, Inc.

Statements of Cash Flows

Year Ended December 31,	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 18,840,879	\$ 5,621,505
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Stock gifts	(3,033)	(3,245)
Depreciation and amortization	152,734	94,645
Bad debt expense	13,402	5,206
Net realized and unrealized (gain) on investments	(23,612,096)	(10,280,484)
Changes in assets and liabilities:		
Emergency and education loans receivable	(20,124)	295,032
Pledges receivable	70,529	(62,450)
Other assets	83,209	12,331
Accounts payable	(24,881)	(21,613)
Other liabilities	(459,351)	15,990
Total adjustments	(23,799,611)	(9,944,588)
Net cash used in operating activities	(4,958,732)	(4,323,083)
Cash flows from investing activities		
Purchases of investments	(158,187,325)	(55,582,160)
Proceeds from sales and maturities of investments	162,811,649	60,271,029
Purchases of property and equipment	(95,489)	(193,225)
Net cash provided by investing activities	4,528,835	4,495,644
Net (decrease) increase in cash and cash equivalents	(429,897)	172,561
Cash and cash equivalents, beginning of year	2,530,149	2,357,588
Cash and cash equivalents, end of year	\$ 2,100,252	\$ 2,530,149

See notes to the financial statements.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Air Force Aid Society, Inc. (the Society), the official charity of the United States Air Force (USAF or Air Force), is incorporated under the laws of Virginia as a private, nonprofit organization. Its three-pronged charter promotes the Air Force mission by providing worldwide emergency assistance to members and their families, sponsoring education assistance programs, and offering a variety of base community enhancement programs that impact member/family welfare.

The Society operates worldwide at every major USAF installation. The Society's programs to provide relief loans and grants are administered, in part, by the USAF Airman and Family Readiness Centers located at these bases.

Income taxes: The Society is exempt from payment of income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Society believes that it has appropriate support for income tax positions taken.

Basis of accounting: The accompanying financial statements of the Society are presented on the accrual basis of accounting. Consequently, revenue is recognized when earned and expensed when the obligation is incurred.

Use of estimates: Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and cash equivalents: Cash on-hand, deposits in banks, and short-term highly liquid debt instruments with original maturities of twelve months or less are considered to be cash and cash equivalents as the investments can be sold prior to maturity, although some may generate an early withdrawal penalty. Money market investments managed at the discretion of the investment manager are considered to be investments.

Emergency assistance and education loans receivable: Loans receivable are reviewed for potential write off when the loan is 90 to 120 days past due. The Society wrote off \$13,933 and \$8,161 of loans receivable in 2017 and 2016, respectively. The allowance for doubtful accounts amounted to \$17,358 and \$17,889 for the years ended December 31, 2017 and 2016, respectively. The Society estimated an allowance of 0.5% of total receivables for the years ended December 31, 2017 and 2016 based on management's experience and collection efforts.

Investments: Investments consisted of common stock and bond index funds, corporate bonds and government agency securities, real estate funds, hedge funds, private equity funds, private debt funds, master limited partnership (MLP) funds, and money market funds. All the investments, except money market funds, are carried at fair value and are held for long-term purposes to provide continuous funding in support of the Society's mission. The money market funds are carried at cost. Management estimates of the fair value of all other investments are based on the net asset value unless additional adjustments are deemed warranted by management. The net asset values are provided by the fund administrator and external investment managers and may include information based on historical cost appraisals, obtainable prices for similar assets, or other estimates.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and equipment: Purchases of property in excess of \$1,000 are capitalized. Depreciation of property is provided on the straight-line basis over the estimated service lives of the assets, which range from three to eight years. Capitalized software is included in property and equipment and is amortized over the estimated service life of the software, which is three years. Donated property is recorded at its fair value at the date of donation. Leasehold improvements are recorded at cost and are amortized over the remaining life of the lease, which is currently scheduled to end on August 31, 2018.

Other liabilities: Other liabilities include employee wage and leave accruals, Youth Employment Skills program grant liabilities, lease-related accruals, amounts received for the charity ball in advance of the event, and the present value of post-retirement life insurance benefits.

Net assets: Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified and reported as follows:

Unrestricted: Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by Board designation. The unrestricted net assets of the Society consisted only of undesignated net assets, which are funds currently available to support the Society's daily operations.

Temporarily restricted: Temporarily restricted net assets include those net assets whose use has been donor restricted by specified purpose limitations or by the passage of time.

Permanently restricted: Permanently restricted net assets include those net assets whose use has been limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Society.

Contributions: The Society receives contributions from Air Force members through the Air Force Assistance Fund (AFAF) (see note below). Revenue is recognized in the period in which the Society is notified by the AFAF of amounts received on its behalf. Other contributions are received directly from individuals and organizations and may include unconditional promises to give (pledges), which are recognized as revenue in the period received or when the promise is made.

When donor restrictions are met by actions of the Society and/or the passage of time, related net assets are reclassified to unrestricted and reported in the statements of activities as net assets released from restrictions. Contributions and endowment investment income with donor-imposed restrictions that are met in the same year as received are reported as unrestricted revenues.

The Air Force Assistance Fund – Annual Campaign: The Society is one of four affiliates of the Air Force Assistance Fund (AFAF). The annual AFAF Campaign, which is managed within the Air Force, includes solicitation on behalf of the Society. Air Force members are able to designate which affiliate will receive their donation and are encouraged to contribute through payroll deductions/allotment. This annual campaign is the primary source of donations to the Society and supports the "Airmen helping Airmen" philosophy on which the Society was founded.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributed services and equipment: Services provided by the USAF Airman and Family Readiness Center staff are not recorded in the accompanying statements of activities since they do not require specialized skills as defined by U.S. generally accepted accounting principles. As a result of the 2003 Defense Authorization Bill, the Department of the Air Force was authorized to pay for certain service costs for the Society. The Society capitalizes any equipment donated by the Air Force that meets the \$1,000 capitalization threshold. There were no such donations during the years ended December 31, 2017 and 2016. The Society continues to depreciate computer equipment donated by the Air Force in 2015, expensing \$16,055 and \$16,099 in related depreciation during the years ended December 31, 2017 and 2016, respectively.

Measure of operations: The Society defines operations as all revenues and expenses that are an integral part of its current year programs and supporting activities. Investment returns in excess (deficit) of the Society's aggregate board-authorized spending guideline, if any, plus the unexpended portion of the current year's temporarily restricted contributions are recognized as a nonoperating activity.

The Society follows a total return spending guideline that is based on a 36-month moving average of the investment portfolio's monthly fair value. The long-term target for the spending guideline is set by the Finance Committee. The Finance Committee reviews the distribution rate and dollar amount annually and approved spending levels of 4.87% for 2017 and 5.00% for 2016.

Functional expenses: Expenses of the Society are reported on a functional basis, dividing costs between program services and support services. The Society uses a head count allocation system to spread certain operational expenditures, including staffing costs, across the five functional units of the organization.

Program services: The Society's operations include the following programs services:

Emergency Assistance – This program provides interest free loans and grants to Air Force members, retirees, and widows based on the individual situation. These loans and grants are provided to meet immediate financial needs in an emergency situation as a step toward a lasting solution to a problem. The Society started a new Falcon Loan program in March 2008 to make emergency assistance funds more easily accessible to Air Force members in need by streamlining the application process. The Falcon loan program provides interest-free loans of up to \$750 to active duty Air Force members to be used for emergency financial needs.

Educational Assistance – Educational assistance has two major programs (see note G):

General H.H. Arnold Education Grant Program – This program provides need based grants to sons, daughters, and spouses of Air Force members that are enrolled full time in undergraduate programs. The amount of a grant the student receives is based on the financial need of the family and ranges from \$500 to \$4,000.

Merit-based Scholarships- In addition to need based grants, the Society also provides \$5,000 merit-based scholarships to the top incoming college and university freshmen students. The selection process consists of the evaluation of cumulative GPA, high school transcripts, and a written essay on a specific topic designated by the Society.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Youth Employment Skills Program - This program is an on-base volunteer program for high school students and is offered at selected Air Force bases. The high school students are provided an opportunity to learn valuable work skills, while "banking" dollar credits toward their post-secondary education/training and creating a positive impact on their base community. The Society decided to end the YES program in 2016, but will continue to pay grants for those students that earned grant money through the 2016 program cycle.

Community Enhancement – This program involves programs in four main areas: Child Care, Parenting, Readiness (phone cards and vehicle safety checks), and Spouse/Youth (education/orientation/job skills). These programs are designed to improve quality of life and meet current and emerging needs of Air Force members during all stages of their career/life.

Support services: The Society's operations include the following support services:

Management and General – Management and general expenses include those costs that provide for the overall support and direction of the Society.

Fundraising – Fundraising activities include providing support materials for the AFAF Campaign in addition to publicizing and conducting other fundraising activities that may involve soliciting contributions from individuals, corporations, and others. These costs also include the costs of the Society's biggest fundraising event, the US Air Force Charity Ball, which generated \$557,775 and \$544,476 for the Society during the years ended December 31, 2017 and 2016, respectively.

Reclassifications: Management provided certain reclassifications of expenses for the year ended December 31, 2016 to conform to their presentation of expenses for the year ended December 31, 2017. As a result of the reclassifications, program expenses decreased by \$2,167 and supporting services expenses increased by \$2,167 and there was no effect on the change in net assets for the year ended December 31, 2016.

Subsequent events: Subsequent events have been evaluated through June 11, 2018, which is the date the financial statements were available to be issued.

B. CONCENTRATIONS

Credit risk: The Society maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Society.

Market value risk: The Society also invests funds in a professionally managed portfolio that contains various securities detailed in Note C. The portfolio includes funds that invest in domestic and international equities, fixed income securities, real estate, hedge funds, private equity funds, private debt funds, and master limited partnership (MLP) funds which are reported at their estimated fair value as determined by the fund managers. Management believes the fund managers' estimates to be reasonable approximations of the fair values of these investments. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in these risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

C. INVESTMENTS

In accordance with generally accepted accounting principles, the Society uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data; and

Level 3 – Unobservable inputs which reflect the reporting Society's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

Investments consisted of the following at December 31, 2017:

	Reported at Fair Value				Investments Reported at Net Asset Value
	Total	Level 1	Level 2	Level 3	
Investments at fair value and NAV,					
<u>Equity investment fund</u>					
Common stock index funds	\$ 110,238,444	\$ 3,027,400	\$ -	\$ -	\$ 107,211,044
<u>Fixed income fund</u>					
U.S. Treasury and federal agencies	18,523,367		18,523,367		
Corporate bonds and notes	17,357,730		17,357,730		
Municipal bond	188,229		188,229		
Aggregate bond index fund	3,537,725				3,537,725
<u>Alternative investment fund</u>					
Private equity funds	13,638,192				13,638,192
Hedge funds	9,518,996				9,518,996
MLP fund	5,051,354			5,051,354	
Real estate investment trust	19,353,420				19,353,420
Private debt funds	2,572,596				2,572,596
	199,980,053	3,027,400	36,069,326	5,051,354	155,831,973
Investments, at cost					
Money market funds	435,190				
Total Investments	\$ 200,415,243				

Notes to the Financial Statements

C. INVESTMENTS - CONTINUED

Investments consisted of the following at December 31, 2016:

	Reported at Fair Value				Investments Reported at Net Asset Value
	Total	Level 1	Level 2	Level 3	
Investments at fair value and NAV,					
<u>Equity investment fund</u>					
Common stock index funds	\$ 99,700,274	\$ 2,524,495	\$ -	\$ -	\$ 97,175,779
<u>Fixed income fund</u>					
U.S. Treasury and federal agencies	19,301,837		19,301,837		
Corporate bonds and notes	15,474,848		15,474,848		
Municipal bond	185,043		185,043		
Aggregate bond index fund	3,418,034				3,418,034
<u>Alternative investment fund</u>					
Hedge funds	9,471,253				9,471,253
Real estate investment trust	19,022,663				19,022,663
Private equity fund	9,054,711				9,054,711
	175,628,663	2,524,495	34,961,728	-	138,142,440
Investments, at cost					
Money market funds	5,795,775				
Total Investments	\$ 181,424,438				

Level 3 investments are reconciled as follows for the years ended December 31,:

	2017	2016
Beginning balance	\$ -	\$ 16,597,677
Purchases	5,748,922	923,301
Sales	(369,322)	(2,546,235)
Reclassifications to NAV*	-	(15,522,009)
Realized and unrealized gains	(328,246)	547,266
Ending balance	\$ 5,051,354	\$ -

*Based on new information obtained in 2017, the UBS Trumbull real estate investment trust and the Adams Street private equity funds were reclassified from level 3 investments to investments reported at net asset value utilizing the practical expedient, thus they are no longer presented in the fair value hierarchy.

Investments using Level 2 inputs consisted of corporate bonds and government agency securities. The fixed income securities are priced using an outside pricing vendor. In determining the fair value of the investments, Northern Trust uses a market approach and prices assets using multiple prices, types of bid/offer, last traded, settlement, evaluated and the official primary exchange close-time pricing. Management believes Northern Trust's estimate to be a reasonable approximation of the fair value of the investments.

Investments recorded at net asset value consist of common stock and bond index funds, hedge funds, real estate investment trusts, private equity funds and private debt funds for which fair value is valued using the net asset value per share of the investments, as provided by the fund manager, and are not classified within the fair value hierarchy. Although no observable inputs are currently available for funds categorized at net asset value, audited fund financial statements are available for management's review.

Notes to the Financial Statements

C. INVESTMENTS – CONTINUED

Investments using Level 3 inputs consist of the Lombard International/Harvest MLP Income III Fund. The fair value of this investment is determined based on the fair value of the underlying investments as determined by the fund manager. Management monitors the reports provided by the fund manager and believes the estimates of fair value to be an approximation of the exit price for this investment. Investments recorded at cost include money market funds. Investments at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

Investment income consisted of the following for the years ended December 31,:

	2017	2016
Interest	\$ 1,278,784	\$ 1,281,724
Net realized and unrealized gain (loss) on investments	23,612,096	10,280,484
Dividends	2,683,204	2,902,122
Investment supervision fee	<u>(779,130)</u>	<u>(682,421)</u>
Total net investment income	<u>\$ 26,794,954</u>	<u>\$ 13,781,909</u>
Investment return designated for current operations	\$ 8,942,800	\$ 8,933,400
Investment return in excess of amounts designated for current operations	<u>17,852,154</u>	<u>4,848,509</u>
Total net investment income	<u>\$ 26,794,954</u>	<u>\$ 13,781,909</u>

The following presents further information regarding the composition of the Society's alternative investments at December 31, 2017:

Alternative Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Northern Trust Alpha Strategies Fund	\$ 9,518,996	\$ -	See (a) below	See (a) below
SSgA Global Real Estate NL Common Trust Fund	4,630,592		See (b) below	See (b) below
Commonfund Capital Partners V LP	10,256,019	2,948,000	See (c) below	See (c) below
Commonfund Natural Resources Partners X LP	980,658	1,700,000	See (d) below	See (d) below
Commonfund Capital Venture Partners XII LP	92,995	3,430,000	See (e) below	See (e) below
Adams Street 2015 Global Fund LP	1,352,916	2,838,000	See (f) below	See (f) below
Adams Street 2016 Global Fund LP	778,880	3,336,000	See (f) below	See (f) below
Adams Street 2017 Global Fund LP	176,720	3,826,000	See (f) below	See (f) below
UBS Trumbull Property Fund	14,722,832	-	See (g) below	See (g) below
Lombard International/Harvest MLP Income III Fund	5,051,354	-	See (h) below	See (h) below
Benefits Street Partners Debt Fund IV	1,233,236	3,293,655	See (i) below	See (i) below
Crescent Capital BDC, Inc.	1,339,360	3,184,284	See (j) below	See (j) below

(a) Northern Trust Alpha Strategies Fund

Northern Trust Alpha Strategies Fund is a fund-of-funds that seeks to achieve attractive, risk adjusted returns with low volatility. A notice period of 60 days written notice is required to redeem shares. The fund generally pays 100% of partial redemption 30 days after the redemption date on a quarterly basis and 95% of a full redemption within 30 days after the redemption date with the balance paid after the completion of the Fund's fiscal year audit.

C. INVESTMENTS – CONTINUED

(b) SSgA Global Real Estate Non-Lending Common Trust Fund

SSgA Global Real Estate Non-Lending Common Trust Fund is an index fund that invests in securities of real estate investment trust companies. The investment objective of the fund is to seek an investment return that approximates as closely as practicable, before expenses, the performance of its benchmark index over the long term. A notice period of 15 days is required to redeem significant shares; however there are no limits on the frequency of the Society's ability to redeem shares.

(c) Commonfund Capital Partners V

Commonfund Capital Partners V is a partnership that manages a broadly diversified multi-strategy program that provides access to US private equity, global private equity, and global venture capital investments. The Society is a limited partner in this partnership that strives to provide a solid return of capital. This is an illiquid investment and redemptions are not permitted. Quarterly distributions will be made by the partnership as individual investments reach maturity.

(d) Commonfund Natural Resources X

Commonfund Natural Resources X is a partnership that manages a diversified natural resources investment program, focusing on investments in oil and natural gas production, oilfield services, power generation, energy infrastructure, mining and minerals extraction, and other natural-resources related industries. The Society is a limited partner in this partnership that will primarily seek to achieve long-term capital appreciation. This is an illiquid long-term investment and redemptions are not permitted. Quarterly distributions will be made by the partnership as individual investments reach maturity.

(e) Commonfund Capital Venture Partners XII

Commonfund Capital Ventures Partners XII fund seeks long-term capital appreciation and superior risk-adjusted returns with a strategic focus on information technology with an early stage bias as well as healthcare investments and late state technology. The Society is a limited partner in this illiquid long-term investment. As such, redemptions are not permitted. Quarterly distributions will be made by the partnership as individual investments reach maturity.

C. INVESTMENTS – CONTINUED

(f) Adams Street 2015 Global Fund, 2016 Global Fund, & 2017 Global Fund

The Adams Street Global Funds are partnerships designed to acquire limited partner interests in each of Adams Street US Funds, Adams Street Non-US Funds, and the Adams Street Direct Venture/Growth Funds in an effort to create a globally diversified private equity portfolio that invests in venture capital, leveraged buyouts, mezzanine/subordinated debt and restructuring/distressed debt partnerships. The Society is a limited partner in this partnership designed to provide diversified global private equity funds. This is an illiquid investment and redemptions are not permitted. Dividends will be paid out as investments in the funds mature.

(g) UBS Trumbull Property Fund

The UBS Trumbull Property Fund is a partnership that actively manages a core portfolio of equity real estate. The fund seeks to provide attractive returns while limiting downside risk. The Society is a limited partner in the fund. Redemptions are allowed on a quarterly basis with 60 days' notice and may be subject to a redemption queue.

(h) Lombard International / Harvest MLP Income III Fund

The Harvest MLP Income III Fund is designed to capture a high risk-adjusted return by investing in a portfolio of energy securities in Master Limited Partnerships with track records of consistent growth through organic expansion and accretive acquisitions, unique market advantages, high quality management team, or improving distribution payouts. To protect the Society from potential Unrelated Business Taxable Income (UBTI), this investment is structured as a group variable annuity through Lombard International, which invests in the Harvest MLP Income III fund through an Insurance Company Separate Account. Redemptions are permitted as needed, following a 30-day notification period from the date Harvest is notified with a request to redeem funds.

(i) Benefit Street Partners Debt Fund IV

The Benefit Street Partners Debt Fund IV aims to target investment opportunities created by the structural supply/demand imbalance for middle market debt in North America. The Fund's investment objective is to deliver superior investment performance while maintaining downside protection by identifying and capturing opportunities for excess returns in the private debt market while targeting debt investment of between \$10 million and \$100 million. The Society is investing in the Benefit Street Partners Debt Fund IV through a Cayman Islands feeder fund treated as a corporation for tax persons, protecting the Society from Unrelated Business Income. Funds are locked during the 7-year term and not redeemable; however cash related to net interest earned on the investments will be distributed on a quarterly basis.

Notes to the Financial Statements

C. INVESTMENTS – CONTINUED

(j) Crescent Capital BDC, Inc.

Crescent Capital BDC, Inc., is a Delaware corporation formed for the purpose of originating and investing primarily in secured debt and unsecured debt, as well as related equity securities of private U.S. middle-market companies. The Society subscribes for shares in the company at a pre-determined capital commitment level. The Society's committed capital is locked up for four years, pending a planned IPO by the company. After a successful IPO, the Society will need to wait another 180 days before they will be able to sell their ownership shares at will. Crescent Capital BDC, Inc. intends to distribute substantially all its available earnings on a quarterly basis, so the Society will have access to some cash flow from the investment.

D. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31,:

	2017	2016
Furniture and equipment	\$ 326,432	\$ 326,432
Capitalized software	1,720,835	1,632,708
Computer equipment	166,551	169,069
Leasehold improvements	367,123	367,123
	2,580,941	2,495,332
Less accumulated depreciation and amortization	(1,843,574)	(1,700,720)
	\$ 737,367	\$ 794,612

E. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31,:

	2017	2016
Purpose restricted for specific Society programs	\$ 373,113	\$ 462,837
Time restricted	75,809	46,458
	\$ 448,922	\$ 509,295

Notes to the Financial Statements

F. ENDOWMENT

The Society's Education Grant endowment consists of one fund held to provide earnings to pay scholarships under the General H.H. Arnold Education Grant Program. The Education Grant endowment is donor-restricted to be held in perpetuity. All returns generated by the restricted funds are used to fund the grants on an annual basis. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Society has interpreted the *Uniform Prudent Management of Institutional Funds Act of 2008 (UPMIFA)* enacted by the General Assembly of the Commonwealth of Virginia as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Changes in endowment net assets for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances at January 1, 2017	\$ -	\$ -	\$ 1,881,804	\$ 1,881,804
Contributions			36,000	36,000
Investment return:				
Interest and dividends		37,909		37,909
Investment fees		(6,706)		(6,706)
Net appreciation (realized and unrealized)		218,560		218,560
Total income	-	249,763	36,000	285,763
Appropriation of endowment assets for expenditure		(249,763)		(249,763)
Balances at December 31, 2017	\$ -	\$ -	\$ 1,917,804	\$ 1,917,804

Notes to the Financial Statements

F. ENDOWMENT - CONTINUED

Changes in endowment net assets for the year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances at January 1, 2016	\$ -	\$ -	\$ 1,811,804	\$ 1,811,804
Contributions			70,000	\$ 70,000
Investment return:				
Interest and dividends		43,188		43,188
Investment fees		(7,078)		(7,078)
Net appreciation (realized and unrealized)		106,633		106,633
Total income	\$ -	142,743	70,000	212,743
Appropriation of endowment assets for expenditure		(142,743)		(142,743)
Balances at December 31, 2016	\$ -	\$ -	\$ 1,881,804	\$ 1,881,804

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that current law requires the Society to retain for a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported in unrestricted net assets. Such deficiencies may result from unfavorable market fluctuations. However, there were no funds with deficiencies at December 31, 2017 and 2016.

Return objectives and risk parameters

The Society has adopted investment and spending policies for its consolidated investment portfolio reserve funds of which a small portion of these assets are endowed for a particular purpose by donors. The investment policy seeks a long-term rate of return on the portfolio that ensures that the growth of the Society's assets will be sufficient to offset or exceed inflation, required program spending, investment management fees, and operating expenses, over a full market cycle. The Society has a low to moderate risk philosophy, but recognizes the need for higher long-term results to fund the current level of program spending. The investment policy calls for a diverse portfolio utilizing various asset classes with a goal of reducing volatility and risk. All returns generated by the permanently-restricted Education Grant funds are used to fund the named education grants set up by the donor, with excess returns used to fund additional grants distributed by the program during the year.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments, coupled with an allocation to alternative investments, to achieve its long-term return objectives within prudent risk constraints. The permanently restricted Education Grant endowment funds are a subset of the total investment fund held by the Society.

Notes to the Financial Statements

F. ENDOWMENT - CONTINUED

Spending policy and how the investment objectives relate to spending policy

The Society has a policy of maintaining the full historical value of the permanently restricted endowments. As of December 31, 2017, the full investment portfolio is invested using a target asset mix of 47% equity, 20% fixed income securities and cash, and 33% alternative investments, per the Board approved investment policy, in an effort to generate returns to cover the long-term spending target of 5%. Included in the 5%, the total return generated by the permanently restricted funds is used each year to fund the education grants designated by donor restriction. The distribution rate and dollar amount of the Society's spending plan is reviewed annually by the Finance Committee as part of the normal budget process.

G. EDUCATIONAL PROGRAM EXPENSES

Educational program expenses consisted of the following for the years ended December 31,:

	2017	2016
General H.H. Arnold Education Grants	5,709,308	\$ 5,827,477
Merit-based Scholarships (& YES Program)	609,884	885,763
	\$ 6,319,192	\$ 6,713,240

H. RETIREMENT PLAN AND POST-RETIREMENT BENEFIT

The Society has a defined contribution pension plan in which all employees participate. Bi-weekly employer contributions were equal to 9% of participants' gross compensation as defined in the plan for both 2017 and 2016. During 2017 and 2016, the Society contributed \$170,769 and \$185,211, respectively, to this plan.

In addition, the Society sponsors a 403(b) plan available to all employees, allowing them to set aside for retirement a portion of their compensation on a pre-tax basis. No employer contributions are made through the Society's 403(b) plan.

As a post-retirement benefit, the Society provides life insurance benefits to retired employees. The post-retirement group term life insurance benefit was modified in 2017 to replace term life insurance with a whole life benefit. The liability for post-retirement life insurance was \$333,569 and \$568,283 for the years ended December 31, 2017 and 2016, respectively.

Notes to the Financial Statements

I. COMMITMENTS

Alternative investments: During the year ended December 31, 2017, the Society entered into additional commitments for the future purchase of additional alternative investments. The following presents further information regarding these alternative investments:

Alternative Investment	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commonfund Capital International Partners IX	1,500,000	See (a) below	See (a) below
Commonfund Natural Resources XI	2,000,000	See (b) below	See (b) below

(a) Commonfund Capital International Partners IX Fund [CIP IX]

The Capital International Partners IX Fund is a multi-manager program focused on private equity investment opportunities in developed economies outside the United States. The focus of the CIP IX Fund is to find managers who seek to execute a proactive value-added approach, concentrating on private equity in growth equity and the small/middle market and, selectively, on large leveraged buyouts as well as distressed equity and debt.

(b) Commonfund Natural Resources XI Fund [CNR XI]

The Commonfund Natural Resources XI Fund is a partnership that manages a diversified natural resources investment program, focusing on investments in oil and natural gas production, power generation, energy infrastructure, mining, and other natural-resources related industries. The Society is a limited partner in this partnership, which is an illiquid long-term investment and redemptions are not permitted. Quarterly distributions will be made by the partnership as individual investments reach maturity.

Office Lease: The Society has a non-cancelable operating lease to rent office space, which expires in August 2018. The lease agreement provided an abatement of three month's rent for the Society during 2015. Rent expense for the years ended December 31, 2017 and 2016 was \$276,359 and \$273,931, respectively.

Future minimum lease payments of \$199,645 are due during the year ending December 31, 2018.

T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report on Supplementary Information

To the Board of Trustees
Air Force Aid Society, Inc.

We have audited the financial statements of the Air Force Aid Society, Inc. (the Society) as of and for the years ended December 31, 2017 and 2016 and issued our report thereon dated June 11, 2018 which expressed an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on the following pages is presented for the purposes of additional analysis of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information on pages 20 and 21 is fairly stated in all material respects in relation to the financial statements as a whole.

Washington, DC
June 11, 2018

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Air Force Aid Society, Inc.

Schedule of Functional Expenses Year Ended December 31, 2017

	Program Services			Total Program Services Expenses	Supporting Services			Total
	Emergency Assistance	Educational Assistance	Community Enhancement		Management and general	Fundraising	Total Supporting Services Expenses	
Grants and conversions	\$ 1,537,885	\$ 5,678,885	1,320,109	\$ 8,536,879	\$ -	\$ -	\$ -	\$ 8,536,879
Salary and benefits	1,190,032	449,179	160,421	1,799,632	816,685	300,425	1,117,110	2,916,742
Fundraising	-	-	-	-	-	316,825	316,825	316,825
Occupancy	112,754	42,559	15,200	170,513	77,381	28,465	105,846	276,359
Professional services	76,316	28,762	10,272	115,350	52,294	19,237	71,531	186,881
IT systems upgrade and maintenance	69,861	26,369	9,418	105,648	47,944	17,636	65,580	171,228
Depreciation and amortization	54,196	20,456	7,306	81,958	37,193	13,682	50,875	132,833
Marketing Initiatives	-	-	-	-	117,014	-	117,014	117,014
Miscellaneous	44,029	10,004	4,373	58,406	23,481	6,691	30,172	88,578
Maintenance agreements and contracts	29,823	11,257	4,020	45,100	20,467	7,529	27,996	73,096
Office expense	33,346	7,548	2,696	43,590	13,803	5,047	18,850	62,440
Accounting fees	-	-	-	-	46,492	-	46,492	46,492
Education grant program fees	-	36,000	-	36,000	-	-	-	36,000
Insurance	14,332	5,410	1,932	21,674	9,835	3,618	13,453	35,127
Travel	7,320	2,763	987	11,070	5,024	1,848	6,872	17,942
Total expenses by program	\$ 3,169,894	\$ 6,319,192	\$ 1,536,734	\$ 11,025,820	\$ 1,267,613	\$ 721,003	\$ 1,988,616	\$ 13,014,436
Percentage of total expenses	24%	49%	12%	85%	10%	5%	15%	100%

The above Emergency Assistance "Grants and conversions" line reflects only \$1,537,885 in grants and none of the approximately six million in interest free loans given during 2017, which per accounting rules remain a statement of financial position asset until paid off. In 2017, the Air Force Aid Society was able to assist 13,672 emergency assistance cases through a combination of grants and/or interest free loans.

Air Force Aid Society, Inc.

Schedule of Functional Expenses Year Ended December 31, 2016

	Program Services			Total Program Services Expenses	Supporting Services		Total Supporting Services Expenses	Total
	Emergency Assistance	Educational Assistance	Community Enhancement		Management and general	Fundraising		
Grants and conversions	\$ 1,550,368	\$ 5,864,616	\$ 1,318,035	\$ 8,733,019	\$ -	\$ -	\$ -	\$ 8,733,019
Salary and benefits	1,329,281	484,566	209,542	2,023,389	962,588	288,120	1,250,708	3,274,097
Occupancy	111,215	40,542	17,532	169,289	80,536	24,106	104,642	273,931
Education grant program fees	-	252,670	-	252,670	-	-	-	252,670
Fundraising	-	-	-	-	-	224,572	224,572	224,572
IT systems upgrade and maintenance	45,040	16,419	7,100	68,559	32,616	9,763	42,379	110,938
Marketing Initiatives	-	-	-	-	107,348	-	107,348	107,348
Depreciation and amortization	30,346	11,062	4,784	46,192	21,975	6,577	28,552	74,744
Professional services	27,110	9,883	4,274	41,267	19,632	5,876	25,508	66,775
Miscellaneous	38,182	8,807	3,809	50,798	20,801	5,237	26,038	76,836
Maintenance agreements and contracts	22,585	8,233	3,560	34,378	16,354	4,895	21,249	55,627
Accounting fees	-	-	-	-	46,488	-	46,488	46,488
Insurance	18,544	6,760	2,923	28,227	13,428	4,019	17,447	45,674
Travel	10,190	3,715	1,607	15,512	7,380	2,209	9,589	25,101
Office expense	17,852	5,967	2,540	26,359	12,685	3,493	16,178	42,537
Total expenses by program	\$ 3,200,713	\$ 6,713,240	\$ 1,575,706	\$ 11,489,659	\$ 1,341,831	\$ 578,867	\$ 1,920,698	\$ 13,410,357
Percentage of total expenses	24%	50%	12%	86%	10%	4%	14%	100%

The above Emergency Assistance "Grants and conversions" line reflects only \$1,550,368 in grants and none of the approximately six million in interest free loans given during 2016, which per accounting rules remain a statement of financial position asset until paid off. In 2016, the Air Force Aid Society was able to assist over 14,000 emergency assistance cases through a combination of grants and/or interest free loans.