

**Audited Financial Statements**

**AIR FORCE AID SOCIETY, INC.**

**December 31, 2018**

# Air Force Aid Society, Inc.

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T A T E



T R Y O N

A Professional Corporation

Certified Public  
Accountants  
and Consultants

2021 L STREET, NW

SUITE 400

WASHINGTON, DC

20036

TELEPHONE

202/293-2200

FACSIMILE

202/293-2208

## 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, 2018 and 2017, 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 audits 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.

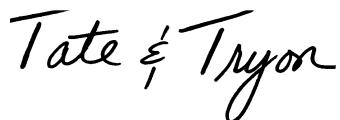
### ***Opinion***

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, 2018 and 2017, 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.

To the Board of Trustees  
Page 2 of 2  
June 14, 2019

***Adoption of Accounting Standards Update 2016-14***

As described in Note A to the consolidated financial statements, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). As required by the FASB, the Society adopted the provisions of ASU 2016-14 during the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources. There was no change in the Society's previously reported change in net assets as a result of the adoption of the ASU. Our opinion is not modified with respect to this matter.



Washington, DC  
June 14, 2019

# Air Force Aid Society, Inc.

## Statements of Financial Position

<i>December 31,</i>	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,156,569	\$ 2,100,252
Investments	<b>183,159,000</b>	200,415,243
Emergency assistance and education loans receivable, net	3,951,499	3,752,994
Pledges receivable	81,958	75,929
Other assets	207,764	143,518
Property and equipment, net	<b>493,188</b>	737,367
<b>Total assets</b>	<b>\$ 189,049,978</b>	\$ 207,225,303
 <b>Liabilities and net assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 1,336,012	\$ 282,135
Other liabilities	<b>824,719</b>	919,479
Total liabilities	<b>2,160,731</b>	1,201,614
Net assets		
Without donor restrictions	<b>184,752,756</b>	203,656,963
With donor restrictions	<b>2,136,491</b>	2,366,726
Total net assets	<b>186,889,247</b>	206,023,689
Commitments and contingencies	-	-
<b>Total liabilities and net assets</b>	<b>\$ 189,049,978</b>	\$ 207,225,303

# Air Force Aid Society, Inc.

## Statements of Activities

<b>Year Ended December 31,</b>	<b>2018</b>	<b>2017</b>
<b>Activities without donor restrictions</b>		
Operating revenues		
Contributions:		
Air Force Assistance Fund	\$ 2,310,671	\$ 2,749,633
Other donations	5,120,793	2,120,461
Total contributions	7,431,464	4,870,094
Investment return designated for current operations	9,626,300	8,942,800
Other	1,634	6,083
Net assets released from restriction	266,689	208,557
Total operating revenues	17,326,087	14,027,534
Expenses		
Program services		
Emergency assistance	9,366,125	3,169,894
Educational assistance	6,591,685	6,319,192
Community enhancement	2,481,946	1,536,734
Total program services expenses	18,439,756	11,025,820
Supporting services		
Management and general	1,386,999	1,267,613
Fundraising	717,034	721,003
Total supporting services	2,104,033	1,988,616
Total operating expenses	20,543,789	13,014,436
Change in net assets from operations	(3,217,702)	1,013,098
Nonoperating activities		
Investment return (deficit) in excess of amounts designated for current operations	(15,686,505)	17,852,154
Change in net assets without donor restrictions	(18,904,207)	18,865,252
<b>Activities with donor restrictions</b>		
Contributions	99,458	184,184
Endowment investment loss	(63,004)	-
Net assets released from restriction	(266,689)	(208,557)
Change in net assets with donor restrictions	(230,235)	(24,373)
<b>Change in net assets</b>	<b>(19,134,442)</b>	18,840,879
Net assets, beginning of year	206,023,689	187,182,810
<b>Net assets, end of year</b>	<b>\$ 186,889,247</b>	\$ 206,023,689

# Air Force Aid Society, Inc.

## Statements of Cash Flows

<b>Year Ended December 31,</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (19,134,442)	\$ 18,840,879
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Stock gifts	(4,400)	(3,033)
Depreciation and amortization	303,601	152,734
Bad debt expense	11,143	13,402
Net realized and unrealized loss (gain) on investments	9,806,106	(23,612,096)
Donated property and equipment	6,268	-
Changes in assets and liabilities:		
Emergency and education loans receivable	(209,648)	(20,124)
Pledges receivable	(6,029)	70,529
Other assets	(64,246)	83,209
Accounts payable	1,053,877	(24,881)
Other liabilities	(94,760)	(459,351)
Total adjustments	10,801,912	(23,799,611)
Net cash used in operating activities	(8,332,530)	(4,958,732)
<b>Cash flows from investing activities</b>		
Purchases of investments	(41,976,793)	(158,187,325)
Proceeds from sales and maturities of investments	49,431,330	162,811,649
Purchases of property and equipment	(65,690)	(95,489)
Net cash provided by investing activities	7,388,847	4,528,835
<b>Net decrease in cash and cash equivalents</b>	<b>(943,683)</b>	<b>(429,897)</b>
Cash and cash equivalents, beginning of year	2,100,252	2,530,149
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,156,569</b>	<b>\$ 2,100,252</b>

# Air Force Aid Society, Inc.

## 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 Air Force 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 Airmen 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 and is classified other than a private foundation. 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.

**New accounting principle:** The Financial Accounting Standards Board (FASB) issued *Accounting Standards Update 2016-14, Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The Society adopted the provisions of ASU 2016-14 during the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources. There was no change in the Society's previously reported change in net assets as a result of the adoption of the ASU.

**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 \$10,070 and \$13,933 of loans receivable in 2018 and 2017, respectively. The allowance for doubtful accounts amounted to \$18,431 and \$17,358 for the years ended December 31, 2018 and 2017, respectively. The Society estimated an allowance of 0.5% of total receivables for the years ended December 31, 2018 and 2017 based on management's experience and collection efforts.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

**Investments:** Investments consisted of common stock and bond index funds, corporate bonds and government agency securities, real estate funds, hedge funds, private equity and debt funds, master limited partnership (MLP) funds, and money market funds. All 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.

**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 were recorded at cost and were amortized over the life of the lease, which ended on August 31, 2018.

**Other liabilities:** Other liabilities include employee wage and leave accruals, Youth Employment Skills program grant liabilities, 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:

**Net Assets without Donor Restrictions:** Net assets without donor restrictions 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. These net assets of the Society consisted only of undesignated net assets, which are funds currently available to support the Society's daily operations.

**Net Assets with Donor Restrictions:** Net assets with donor restrictions are those net assets where the donor has restricted use of the funds for a specific purpose or by time. These funds may be either restricted by the donor in perpetuity or released for future use by meeting the restriction imposed by the donor.

**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 net assets without donor restrictions and reported in the statements of activities as net assets released from donor restrictions. Contributions and endowment investment income with donor-imposed restrictions that are met in the same year as received are reported as revenues without donor restrictions.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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 Air Force has provided leased office space in Arlington, Virginia for the use of the Society starting September 1, 2018. The fair value of the donated office space has been recorded as offsetting contribution revenue and rent expense in the amount of \$125,297 for the year ended December 31, 2018. The Society also capitalizes any equipment donated by the Air Force that meets the \$1,000 capitalization threshold for each respective item. The Society received donated laptops from the Air Force which were valued at \$6,268 during the year ended December 31, 2018. There were no such donations during the year ended December 31, 2017. The Society depreciates computer equipment donated by the Air Force, expensing \$16,092 and \$16,055 in related depreciation during the years ended December 31, 2018 and 2017, 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 contributions with donor restrictions 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 5.18% for 2018 and 4.87% for 2017.

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 \$1,000 to active duty Air Force members to be used for emergency financial needs.

In 2018, the Society provided an additional \$6.4 million in support of airmen affected by Hurricane Michael at Tyndall AFB and the surrounding areas in the panhandle of Florida. The Air Force Aid Society management initiated a short-term plan to provide sustainability grants of \$750 for single airmen and \$1,500 for airmen with dependents to airmen affected by the hurricane.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

*Educational Assistance* - Educational assistance has two major programs (see note H):

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 the grant a student receives is based on the financial need of the family and ranges from \$500 to \$4,000.

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

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 includes individual programs in four main areas: Child Care, Parenting, Readiness (car 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.

Supporting services: The Society's operations include the following supporting 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 \$630,597 and \$557,775 for the Society during the years ended December 31, 2018 and 2017, respectively.

*Subsequent events*: Subsequent events have been evaluated through June 14, 2019, 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.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### B. CONCENTRATIONS - CONTINUED

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, 2018:

	Reported at Fair Value				Investments Reported at Net Asset Value
	Total	Level 1	Level 2	Level 3	
<u>Equity investment fund</u>					
Common stock index funds	\$ 86,380,639	\$ 2,281,926	\$ -	\$ -	\$ 84,098,713
<u>Fixed income fund</u>					
U.S. Treasury and federal agencies	17,026,101		17,026,101		
Corporate bonds and notes	15,713,732		15,713,732		
Municipal bond	178,072		178,072		
Aggregate bond index fund	3,127,136				3,127,136
Fixed income mutual fund	-		-		
<u>Alternative investment fund</u>					
Private equity funds	20,310,164				20,310,164
Hedge funds	9,264,534				9,264,534
MLP fund	4,860,463			4,860,463	
Real estate investment trust	20,257,374				20,257,374
Private debt funds	5,571,641				5,571,641
	182,689,856	2,281,926	32,917,905	4,860,463	142,629,562
Investments, at cost					
Money market funds	469,144				
<b>Total Investments</b>	<b>\$ 183,159,000</b>				

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### C. INVESTMENTS - CONTINUED

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				
<b>Total Investments</b>	<b>\$ 200,415,243</b>				

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

	2018	2017
Beginning balance	\$ 5,051,354	\$ -
Purchases	650,000	5,748,922
Sales	-	(369,322)
Realized and unrealized losses	(840,891)	(328,246)
<b>Ending balance</b>	<b>\$ 4,860,463</b>	<b>\$ 5,051,354</b>

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.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

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### 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,:

	<b>2018</b>	<b>2017</b>
Investment return designated for current operations	\$ 9,626,300	\$ 8,942,800
Investment return (deficit) in excess of amounts designated for current operations	(15,686,505)	17,852,154
Endowment investment loss	<u>(63,004)</u>	<u>-</u>
<b>Total net investment income</b>	<b>\$ (6,123,209)</b>	<b>\$ 26,794,954</b>

The following presents further information regarding the composition of the Society's alternative investments at December 31, 2018:

Alternative Investment	NAV & Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
50 South Capital Alpha Strategies Fund	\$ 9,264,534	\$ -	See (a) below	See (a) below
SSgA Global Real Estate	4,613,826	-	See (b) below	See (b) below
Commonfund Capital Partners V	11,916,532	1,958,000	See (c) below	See (c) below
Commonfund Natural Resources X	1,509,692	1,125,000	See (d) below	See (d) below
Commonfund Natural Resources XI	34,776	1,960,000	See (d) below	See (d) below
Commonfund Capital Venture Partners XII	300,601	3,185,000	See (e) below	See (e) below
Commonfund Capital International Partners IX	85,557	1,432,500	See (f) below	See (f) below
Adams Street 2015 Global Fund	2,851,896	1,388,000	See (g) below	See (g) below
Adams Street 2016 Global Fund	1,901,046	2,120,000	See (g) below	See (g) below
Adams Street 2017 Global Fund	1,286,070	2,686,000	See (g) below	See (g) below
Adams Street 2018 Global Fund	423,994	3,108,000	See (g) below	See (g) below
UBS Trumbull Property Fund	15,643,548	-	See (h) below	See (h) below
Lombard International/Harvest MLP Income III Fund	4,860,463	-	See (i) below	See (i) below
Benefits Street Partners Debt Fund IV	2,528,960	1,988,607	See (j) below	See (j) below
Crescent Capital BDC, Inc.	3,042,681	1,519,837	See (k) below	See (k) below

#### **(a) 50 South Capital Alpha Strategies Fund**

50 South Capital, subsidiary of 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.

**Notes to the Financial Statements**

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**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 2 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 and Natural Resources XI**

Commonfund Natural Resources X and Natural Resources XI are partnerships that manage 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 these partnerships 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 partnerships 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.

**(f) Commonfund Capital International Partners IX**

The Commonfund Capital International Partners IX Fund is a multi-manager program that focuses 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. 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.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

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### C. INVESTMENTS - CONTINUED

#### (g) Adams Street Global Funds (2015, 2016, 2017 & 2018)

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 these partnerships 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.

#### (h) 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.

#### (i) 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.

#### (j) 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.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

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### C. INVESTMENTS - CONTINUED

#### (k) 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. LIQUIDITY

The Society relies on three main sources of funding for its ongoing annual operations: contributions, repayment of no-interest loans, and withdrawals from its investment portfolio. Financial assets that are not available to fund current operations include contributions with donor restrictions and investments that are illiquid or have scheduled redemptions exceeding one year. Contributions restricted by the donor for specific purposes or time periods cannot be utilized until the restriction is met. Time-restricted assets unavailable for current operations include donor contributions to the corpus of endowments, which are considered restricted in perpetuity (see Note G regarding endowments). To fully fund the demand for the Society's programs that support Air Force families and the administrative costs to run the organization, the Society relies heavily on its investment portfolio. The Finance Committee oversees the investment portfolio and utilizes a spending guide limit of 5% to manage the amount of funds that are drawn down each year to fund operations. In an effort to provide the necessary liquidity in the portfolio to fund regular operations and any emergency situation that would require additional funding (hurricane or other disasters), the Finance Committee places a limit on illiquid investments such that they cannot exceed 30% of the portfolio value. Illiquid investments consisted of alternative investments in private equity funds and private debt funds as of December 31, 2018 and 2017 (see Note C regarding investments). Financial assets available to fund general expenditures within one year were as follows for the years ended December, 31:

	2018	2017
Cash and cash equivalents	\$ 1,156,569	\$ 2,100,252
Investments	183,159,000	200,415,243
Accounts receivable	3,951,499	3,752,994
Pledges receivable	81,958	75,929
Total financial assets	<hr/> 188,349,026	<hr/> 206,344,418
Less: investments with donor restrictions	(2,136,491)	(2,366,726)
Less: investments with no liquidity provision	<hr/> (25,881,805)	<hr/> (16,210,788)
Financial assets available to meet cash needs for general expenditure within one year	<hr/> \$ 160,330,730	<hr/> \$ 187,766,904

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

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### E. PROPERTY AND EQUIPMENT

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

	2018	2017
Furniture and equipment	\$ 355,527	\$ 326,432
Capitalized software	1,725,258	1,720,835
Computer equipment	180,602	166,551
Leasehold improvements	<u>-</u>	<u>367,123</u>
	2,261,387	2,580,941
Less accumulated depreciation and amortization	<u>(1,768,199)</u>	<u>(1,843,574)</u>
	<u>\$ 493,188</u>	<u>\$ 737,367</u>

### F. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31,:

	2018	2017
Endowment fund *	\$ 1,854,800	\$ 1,917,804
Purpose restricted for specific Society programs	182,233	373,113
Time restricted	<u>99,458</u>	<u>75,809</u>
	<u>\$ 2,136,491</u>	<u>\$ 2,366,726</u>

\* See Note G for detail of endowment fund

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

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### G. 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 investment 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 as an endowment in perpetuity is classified as net assets with donor restrictions 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, 2018:

	With Donor Restrictions				Total
	Without Donor Restrictions	Subject to Expenditure for Specified Purpose	Endowment Given in Perpetuity		
Balances at January 1, 2018	\$ -	\$ -	\$ 1,917,804	\$ 1,917,804	
Contributions				-	-
Investment return, net		(63,004)		-	(63,004)
Total (loss) income			(63,004)		(63,004)
Appropriation of endowment assets for expenditure			-		-
Balances at December 31, 2018	\$ -	\$ (63,004)	\$ 1,917,804	\$ 1,854,800	

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

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### G. ENDOWMENT - CONTINUED

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

	With Donor Restrictions				
	Subject to Expenditure for Specified Purpose		Endowment Given in Perpetuity	Total	
	Without Donor Restrictions				
Balances at January 1, 2017	\$	-	\$	-	\$ 1,881,804
Contributions				36,000	36,000
Investment return, net			249,763	-	249,763
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

#### *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 net assets without donor restrictions. Such deficiencies may result from unfavorable market fluctuations. Funds with deficiencies totaled \$63,004 and \$0 at December 31, 2018 and 2017.

#### *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 endowment given in perpetuity 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 endowment given in perpetuity is a subset of the total investment fund held by the Society.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

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### G. 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 endowment in perpetuity. As of December 31, 2018, 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 endowment 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.

### H. EDUCATIONAL PROGRAM EXPENSES

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

	<b>2018</b>	<b>2017</b>
General H.H. Arnold Education Grants	\$ 5,766,709	\$ 5,496,308
Merit-based Scholarships	242,500	213,000
Educational Program Administration (& YES Program)	582,476	609,884
	<hr/> <b>\$ 6,591,685</b>	<hr/> <b>\$ 6,319,192</b>

### I. 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 2018 and 2017. During 2018 and 2017, the Society contributed \$162,864 and \$170,769, 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 retirement benefit, the Society provides life insurance benefits to any employee that retires from the Society with more than ten years of employment with the Society. The benefit is a fully paid up whole life policy with a value of 50% of the employee's ending salary up to a max of \$50,000. The liability for post-retirement life insurance was \$309,679 and \$333,569 for the years ended December 31, 2018 and 2017, respectively.

### J. COMMITMENTS

Office lease: The Society had a non-cancelable operating lease to rent office space, which expired August 31, 2018 and was not renewed. Rent expense paid by the Society for the years ended December 31, 2018 and 2017 was \$185,752 and \$276,359, respectively. The Society moved to new office space contributed by the Department of the Air Force effective September 1, 2018, as discussed in Note A.

**Notes to the Financial Statements**

**K. FUNCTIONAL EXPENSES**

The detail of functional and natural expenses of the Society were as follows for the year ended December 31, 2018:

	Program Services				Supporting Services			Total	
	Emergency Assistance	Educational Assistance	Community Enhancement	Total Program Services Expenses	Management and general		Fundraising		
					Program Services Expenses	Management and general			
Grants and conversions	\$ 7,728,527	\$ 5,969,597	\$ 2,274,547	\$ 15,972,671	\$ -	\$ -	\$ -	\$ 15,972,671	
Salary and benefits	1,057,512	406,531	132,853	1,596,896	787,907	249,764	1,037,671	2,634,567	
Fundraising	-	-	-	-	-	334,837	334,837	334,837	
Occupancy	150,160	57,725	18,864	226,749	115,072	35,465	150,537	377,286	
Professional services	83,627	32,148	10,506	126,281	64,085	19,751	83,836	210,117	
IT systems upgrade and maintenance	111,599	42,901	14,020	168,520	85,522	26,358	111,880	280,400	
Depreciation and amortization	115,553	44,421	14,517	174,491	88,552	27,291	115,843	290,334	
Marketing Initiatives	-	-	-	-	87,162	-	87,162	87,162	
Miscellaneous	19,735	780	255	20,770	37,279	479	37,758	58,528	
Maintenance agreements and contracts	36,269	13,943	4,556	54,768	27,795	8,566	36,361	91,129	
Office expense	37,273	13,694	8,578	59,545	27,299	8,413	35,712	95,257	
Accounting fees	-	-	-	-	46,500	-	46,500	46,500	
Education grant program fees	-	-	-	-	-	-	-	-	
Insurance	14,248	5,477	1,790	21,515	10,920	3,365	14,285	35,800	
Travel	11,622	4,468	1,460	17,550	8,906	2,745	11,651	29,201	
Total expenses by program	\$ 9,366,125	\$ 6,591,685	\$ 2,481,946	\$ 18,439,756	\$ 1,386,999	\$ 717,034	\$ 2,104,033	\$ 20,543,789	
Percentage of total expenses	46%	32%	12%	90%	7%	3%	10%	100%	

The above Emergency Assistance "Grants and conversions" line reflects only \$7,728,527 in grants and none of the approximately \$6.2 million in interest free loans distributed during 2018, which per accounting rules remain a statement of financial position asset until paid off. In 2018, the Air Force Aid Society was able to assist 13,740 emergency assistance cases through a combination of grants and/or interest free loans.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### K. FUNCTIONAL EXPENSES - CONTINUED

The detail of functional and natural expenses of the Society were as follows for the year ended December 31, 2017:

	Program Services				Supporting Services				Total	
	Emergency Assistance	Educational Assistance	Community Enhancement	Total Program Services Expenses	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 distributed 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.