

# **Air Force Aid Society, Inc.**

Financial Report  
December 31, 2020

## Contents

---

Independent auditor's report	1
<hr/>	
Financial statements	
Statements of financial position	2
Statements of activities	3
Statements of cash flows	4
Notes to financial statements	5-23

---



RSM US LLP

## Independent Auditor's Report

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, 2020 and 2019, 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, 2020 and 2019, 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.

*RSM US LLP*

Washington, D.C.  
June 30, 2021

THE POWER OF BEING UNDERSTOOD  
AUDIT | TAX | CONSULTING

**Air Force Aid Society, Inc.**

**Statements of Financial Position  
December 31, 2020 and 2019**

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 1,258,075	\$ 1,461,085
Investments	227,029,849	206,000,903
Emergency assistance and education loans receivable, net	1,964,469	3,767,436
Promises to give	71,559	35,329
Other assets	72,140	191,650
Property and equipment, net	86,481	244,694
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 230,482,573</b>	<b>\$ 211,701,097</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 273,028	\$ 345,866
Refundable advances	2,103,114	241,502
Other liabilities	561,640	623,713
<b>Total liabilities</b>	<hr/> <b>2,937,782</b>	<hr/> <b>1,211,081</b>
Commitments and contingencies (Notes 3 and 10)		
Net assets:		
Without donor restrictions	225,254,844	208,369,096
With donor restrictions	2,289,947	2,120,920
<b>Total net assets</b>	<hr/> <b>227,544,791</b>	<hr/> <b>210,490,016</b>
	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<b>\$ 230,482,573</b>	<b>\$ 211,701,097</b>
	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements.

**Air Force Aid Society, Inc.**

**Statements of Activities  
Years Ended December 31, 2020 and 2019**

	2020	2019
Activities without donor restrictions:		
Operating revenues:		
Contributions:		
Air Force Assistance Fund	\$ 1,757,157	\$ 1,937,579
Other donations	4,379,896	1,650,306
Donated non-financial assets	347,305	340,495
<b>Total contributions</b>	<b>6,484,358</b>	<b>3,928,380</b>
Investment return designated for current operations	8,992,117	8,473,642
Other	4,816	4,874
Net assets released from restrictions	244,469	414,770
<b>Total operating revenues</b>	<b>15,725,760</b>	<b>12,821,666</b>
Expenses:		
Program services:		
Educational assistance	6,005,121	5,605,385
Emergency assistance	4,522,410	2,945,476
Community enhancement	1,041,266	1,615,182
<b>Total program services expenses</b>	<b>11,568,797</b>	<b>10,166,043</b>
Supporting services:		
Management and general	1,580,697	1,479,402
Fundraising	590,775	777,088
<b>Total supporting services</b>	<b>2,171,472</b>	<b>2,256,490</b>
<b>Total expenses</b>	<b>13,740,269</b>	<b>12,422,533</b>
<b>Change in net assets from operations</b>	<b>1,985,491</b>	<b>399,133</b>
Nonoperating activities:		
Investment return net of amounts designated for current operations	14,900,257	23,217,207
<b>Change in net assets without donor restrictions</b>	<b>16,885,748</b>	<b>23,616,340</b>
Activities with donor restrictions:		
Contributions	191,059	99,137
Endowment investment return	222,437	300,062
Net assets released from restrictions	(244,469)	(414,770)
<b>Change in net assets with donor restrictions</b>	<b>169,027</b>	<b>(15,571)</b>
<b>Change in net assets</b>	<b>17,054,775</b>	<b>23,600,769</b>
Net assets:		
Beginning	210,490,016	186,889,247
Ending	<b>\$ 227,544,791</b>	<b>\$ 210,490,016</b>

See notes to financial statements.

**Air Force Aid Society, Inc.**

**Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 17,054,775	\$ 23,600,769
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Stock gifts	(5,543)	(15,687)
Depreciation and amortization	194,610	262,169
Bad debt expense	18,466	51,570
Net realized and unrealized gain on investments	(21,013,013)	(28,492,516)
Changes in assets and liabilities:		
(Increase) decrease in:		
Emergency assistance and education loans receivable	1,784,501	132,493
Promises to give	(36,230)	46,629
Other assets	119,510	16,114
Increase (decrease) in:		
Accounts payable and accrued expenses	(72,838)	(990,146)
Refundable advances	1,861,612	33,094
Other liabilities	(62,073)	7,402
<b>Net cash used in operating activities</b>	<b>(156,223)</b>	<b>(5,348,109)</b>
Cash flows from investing activities:		
Purchases of investments	(89,271,991)	(86,788,962)
Proceeds from sales and maturities of investments	89,261,601	92,455,262
Purchases of property and equipment	(36,397)	(13,675)
<b>Net cash (used in) provided by investing activities</b>	<b>(46,787)</b>	<b>5,652,625</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(203,010)</b>	<b>304,516</b>
Cash and cash equivalents:		
Beginning	1,461,085	1,156,569
Ending	\$ 1,258,075	\$ 1,461,085

See notes to financial statements.

## Air Force Aid Society, Inc.

### Notes to Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** The Air Force Aid Society, Inc. (the Society) is designated as the official charity of the United States Air Force (USAF or Air Force) and is incorporated under the laws of Virginia as a private, nonprofit organization. Its three-pronged charter promotes the Air Force mission by providing emergency financial assistance to Air Force and Space 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 Airman and Family Readiness Centers located at these bases.

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

**Educational Assistance:** Educational assistance includes the following programs (see Note 8):

**General H.H. Arnold Education Grant Program:** This program provides needs-based grants to sons, daughters and spouses of Air and Space Force members who 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.

**Emergency assistance:** This program provides interest free loans and grants to Air and Space 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 the Falcon Loan program in March 2008 to make emergency assistance funds readily accessible to Air and Space Force members in need by streamlining the application process. The Falcon loan program provides interest-free loans of up to \$1,000 to assist with emergency financial needs.

In 2020, the Society provided almost \$2.1 million in support of Air and Space Force families affected by the COVID-19 pandemic, assisting over 7,600 families. Most of this support was provided through Virtual Schooling Grants that aimed to help families dealing with the shift to a remote home-based learning environment. The Society provided 7,409 families with individual grants of \$250 for a total of approximately \$1.9 million to support virtual schooling. The Society also received a total of \$3.5 million from two corporate partners designated to help fund the Society's COVID-related assistance.

**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.

## Air Force Aid Society, Inc.

### Notes to Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**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 U.S. Air Force Charity Ball, which generated \$880,059 and \$636,082 for the Society, net of all event expenses, during the years ended December 31, 2020 and 2019, respectively.

A summary of the Society's significant accounting policies follows:

**Basis of presentation:** The financial statement presentation follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Not-For-Profit Entities Topic of the FASB ASC, the Society is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

**Net assets with donor restrictions:** Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time and/or purpose restrictions. The Society reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statement of activities as net assets released from restrictions. Contributions with donor-imposed restrictions that are met in the same year as received are reported as revenues without donor restrictions.

**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.

**Income tax status:** The Society is exempt from payment of income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified as other than a private foundation. The Society believes that it has appropriate support for income tax positions taken.

**Use of estimates:** The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. 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 12 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.

**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 are carried at fair value and are held for long-term purposes to provide continuous funding in support of the Society's mission. 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.



## Air Force Aid Society, Inc.

### Notes to Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Financial 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.

The Society also invests funds in a professionally managed portfolio that contains various securities detailed in Note 2. 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.

**Emergency assistance and education loans receivable:** Loans receivable are reviewed for potential write off when the loan is 90 to 120 days past due. Bad debt expense was \$18,466 and \$51,170 in 2020 and 2019, respectively. The Society estimated an allowance for doubtful accounts based on management's experience and collection efforts, which amounted to \$55,767 and \$69,535 as of December 31, 2020 and 2019, respectively.

**Property and equipment:** Purchases of property and equipment 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.

**Impairment policy:** Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. During the years ended December 31, 2020 and 2019, management did not consider the value of any property or equipment to be impaired.

**Refundable advances:** Conditional grants for which the Society has received funding in advance are included as refundable advances until the donor-imposed conditions have been met. The donor-imposed conditions relate to future events and limited discretion over expenditures. The increase in refundable advances in 2020 was due to conditional gifts received to fund COVID-19 interest-free loans for which conditions of the gifts had not yet been met at December 31, 2020.

**Other liabilities:** Other liabilities include employee wage and leave accruals, program grant liabilities and the present value of post-retirement life insurance benefits.

## Air Force Aid Society, Inc.

### Notes to Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Adopted accounting pronouncements:** During 2020, the Society adopted the guidance regarding contributions made from Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this standard include clarification regarding the accounting for grants and contributions as exchange transactions or contributions, and improved guidance to better distinguish between conditional and unconditional contributions. Based on the Society's review of its grants and contracts, the timing and amount of revenues and expenses recognized previously is consistent with how revenues and expenses are recognized under this new standard. The adoption of this standard had no impact on the statements of financial position and the statements of activities.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. The Society adopted the provisions of ASU 2018-13 for the year ended December 31, 2020. The adoption of ASU 2018-13 had no significant impact on the financial statements.

**Contributions:** The Society receives contributions from Air and Space Force members through the Air Force Assistance Fund (AFAF) as well as other contributions that are received directly from individuals and organizations. 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 and Space Force members can 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.

Unconditional contributions (including those received through bequests and legacies) are recorded to net assets with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions, including unconditional promises to give, cash or other assets, are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by the Society. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Assets received in connection with conditional promises are reported as refundable advances until such time the conditions are substantially met.

**Donated non-financial assets:** Donated services are recognized as contributions and expense in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). To meet the criteria for recognition in the financial statements, contributions of donated services must: (a) create or enhance non-financial assets, or (b) require specialized skills, be performed by people with those skills, and would otherwise be purchased by the Society. 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. GAAP.

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 \$347,305 and \$340,495 for the years ended December 31, 2020 and 2019, respectively.

## Air Force Aid Society, Inc.

### Notes to Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Society also capitalizes any equipment donated by the Air Force that meets the \$1,000 capitalization threshold for each respective item. The Society depreciates computer equipment donated by the Air Force, expensing \$2,093 and \$2,088 in related depreciation during the years ended December 31, 2020 and 2019, 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 (loss) net 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 non-operating 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 4.68% for 2020 and 4.53% for 2019.

**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.

**Recent accounting pronouncements:** In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statements of activities as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022. ASU 2016-13 is effective for the Society as of January 1, 2023. Early adoption is permitted for fiscal years beginning after December 15, 2018. The Society does not intend to early adopt.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires a not-for-profit entity to present contributed nonfinancial assets in the statements of activities as a line item that is separate from contributions of cash or other financial assets. A not-for-profit entity also is required to disclose contributed nonfinancial assets received disaggregated by category that depicts the type of contributed nonfinancial assets. The term nonfinancial asset includes fixed assets, use of fixed assets or utilities and materials and supplies, intangible assets, services and unconditional promises of those assets. The ASU will be applied on a retrospective basis. This standard will be effective for the Society for the year ending December 31, 2022.

**Reclassifications:** Certain 2019 amounts have been reclassified to conform to the 2020 presentation with no effect on the previously reported total change in net assets.

**Subsequent events:** Subsequent events have been evaluated through June 30, 2021, which is the date the financial statements were available to be issued.

## Air Force Aid Society, Inc.

### Notes to Financial Statements

---

#### Note 2. Investments

Investments consist of the following at December 31, 2020 and 2019:

	2020	2019
Money market funds	\$ 1,004,854	\$ 751,064
Mutual funds	7,713,861	6,068,356
U.S. common stock	4,176,616	-
Collective investment funds	91,750,483	87,048,851
U.S. Treasury and federal agency securities	23,285,745	22,967,687
Corporate, foreign and municipal bonds	22,859,263	16,919,538
Alternative investments	76,239,027	72,245,407
	<u>\$ 227,029,849</u>	<u>\$ 206,000,903</u>

#### Note 3. Fair Value Measurements

The Fair Value Measurement Topic of the ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this topic as assumptions market participants would use in pricing an asset or liability. The input levels used for valuing investments are not necessarily an indication of risk.

**Level 1:** Unadjusted quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. As required by the Fair Value Measurement Topic, the Society does not adjust the quoted prices for these investments even in situations where the Society holds a large position and a sale could reasonably impact the quoted price.

**Level 2:** Inputs other than quoted prices within Level 1 that are observable for the asset, either directly or indirectly, and fair value is determined using models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

**Level 3:** Inputs are unobservable for the asset and include situations where there is little, if any, market activity for the asset. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category are investments where fair value is not based on a net asset value (NAV) practical expedient. There were no Level 3 inputs for any assets held by the Society on December 31, 2020 and 2019.

**Air Force Aid Society, Inc.**

**Notes to Financial Statements**

**Note 3. Fair Value Measurements (Continued)**

Investments measured at fair value on a recurring basis by level within the hierarchy as of December 31, 2020:

	Total	Reported at Fair Value			Investments Reported at Net Asset Value
		Level 1	Level 2	Level 3	
Money market funds	\$ 1,004,854	\$ 1,004,854	\$ -	\$ -	\$ -
Equity investment funds:					
Mutual fund – equity	7,408,728	7,408,728	-	-	-
U.S. common stock	4,176,616	4,176,616	-	-	-
Collective investment fund – Canada	3,033,695	-	-	-	3,033,695
Collective investment fund – International	30,006,382	-	-	-	30,006,382
Collective investment fund – U.S. equity	58,710,406	-	-	-	58,710,406
Subtotal – equity investment funds	<u>103,335,827</u>				
Fixed income funds:					
U.S. Treasury and federal agencies	23,285,745	-	23,285,745	-	-
Corporate bonds	20,397,433	-	20,397,433	-	-
Foreign bonds	2,285,994	-	2,285,994	-	-
Mutual fund – aggregate bond	267,272	-	267,272	-	-
Mutual fund – government obligations	37,861	-	37,861	-	-
Municipal bonds	175,836	-	175,836	-	-
Subtotal – fixed income funds	<u>46,450,141</u>				
Alternative investment funds:					
Private equity funds	37,416,788	-	-	-	37,416,788
Real estate investment trust	15,501,060	-	-	-	15,501,060
Hedge funds	16,645,585	-	-	-	16,645,585
Private debt funds	4,836,826	-	-	-	4,836,826
MLP fund	1,838,768	-	-	-	1,838,768
Subtotal – alternative investment funds	<u>76,239,027</u>				
Total investments	<u>\$ 227,029,849</u>	<u>\$ 12,590,198</u>	<u>\$ 46,450,141</u>	<u>\$ -</u>	<u>\$ 167,989,510</u>

## Air Force Aid Society, Inc.

### Notes to Financial Statements

#### Note 3. Fair Value Measurements (Continued)

Investments measured at fair value on a recurring basis by level within the hierarchy as of December 31, 2019:

	Total	Reported at Fair Value			Investments Reported at Net Asset Value
		Level 1	Level 2	Level 3	
Money market funds	\$ 751,064	\$ 751,064	\$ -	\$ -	\$ -
Equity investment funds:					
Mutual Fund – equity	6,068,356	6,068,356	-	-	-
Collective investment fund – Canada	2,868,378	-	-	-	2,868,378
Collective investment fund – International	28,276,665	-	-	-	28,276,665
Collective investment fund – U.S. equity	55,903,808	-	-	-	55,903,808
Subtotal – equity investment fund	<u>93,117,207</u>				
Fixed income funds:					
U.S. Treasury and federal agencies	22,967,687	-	22,967,687	-	-
Corporate bonds	14,727,423	-	14,727,423	-	-
Foreign bonds	2,003,515	-	2,003,515	-	-
Municipal bonds	188,600	-	188,600	-	-
Subtotal – fixed income fund	<u>39,887,225</u>				
Alternative investment funds:					
Private equity funds	25,628,917	-	-	-	25,628,917
Real estate investment trust	17,899,344	-	-	-	17,899,344
Hedge funds	15,826,295	-	-	-	15,826,295
Private debt funds	7,434,403	-	-	-	7,434,403
MLP fund	5,456,448	-	-	-	5,456,448
Subtotal – alternative investment funds	<u>72,245,407</u>				
Total investments	<u>\$ 206,000,903</u>	<u>\$ 6,819,420</u>	<u>\$ 39,887,225</u>	<u>\$ -</u>	<u>\$ 159,294,258</u>

The Society's investments in money market funds, mutual funds and exchange traded funds are classified as Level 1 items as they are traded on a public exchange.

The Society's investments in U.S. Treasury and federal agency securities and corporate, foreign and municipal bonds are classified as Level 2 investments as there are no quoted market prices in active markets for identical assets. The fixed income securities are priced using an outside pricing vendor. In determining the fair value of the investments, the custodian 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 the custodian's estimate to be a reasonable approximation of the fair value of the investments.

NAV is defined as the value of a fund that is reached by deducting the fund's liabilities from the market value of all its assets and then dividing the number of issued shares (or units of ownership). Depending on the type of fund and the nature of its assets, a variety of valuation techniques can be used to arrive at the market value of its assets. Investments recorded at net asset value consist of collective investment funds, private equity funds, real estate investment trusts, hedge funds, private debt funds, and MLP fund for which fair value is determined using the NAV 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 Financial Statements

#### Note 3. Fair Value Measurements (Continued)

The following presents further information regarding the composition of the Society's alternative investments as of December 31, 2020 and 2019:

Fund type	Investment fund name	12/31/20 NAV	12/31/19 NAV	12/31/20 Unfunded Commitments	12/31/19 Unfunded Commitments	Redemption Frequency & Notice
Private equity	Commonfund Capital Partners V	\$ 14,661,836	\$ 12,666,542	\$ 1,160,500	\$ 1,298,000	See (a) below
Private equity	Commonfund Natural Resources X	1,588,640	1,661,667	583,750	846,250	See (b) below
Private equity	Commonfund Natural Resources XI	552,877	300,878	1,335,000	1,550,000	See (b) below
Private equity	Commonfund Capital Venture Partners XII	2,523,328	1,179,962	1,583,750	2,126,250	See (c) below
Private equity	Commonfund Capital Venture Partners XIII	717,441	15,431	1,540,000	2,000,000	See (c) below
Private equity	Commonfund Capital International Partners IX	704,861	295,125	1,020,000	1,170,000	See (d) below
Private equity	Adams Street 2015 Global Fund	5,071,518	3,407,545	998,000	1,388,000	See (e) below
Private equity	Adams Street 2016 Global Fund	3,692,327	2,546,428	1,367,200	1,808,000	See (e) below
Private equity	Adams Street 2017 Global Fund	3,248,896	2,029,112	1,658,000	2,178,000	See (e) below
Private equity	Adams Street 2018 Global Fund	1,729,124	693,546	2,224,250	2,943,500	See (e) below
Private equity	Adams Street 2019 Global Fund	361,853	78,447	1,838,000	1,943,000	See (e) below
Private equity	Adams Street 2020 Global Fund	105,651	-	1,960,000	-	See (e) below
Private equity	Adams Street Co-Investment Fund IV	2,372,418	754,234	1,341,000	2,310,000	See (e) below
Private equity	Legacy Ventures Fund X	86,018	-	2,910,000	-	See (f) below
Real estate	UBS Trumbull Property Fund	12,135,410	13,149,509	-	-	See (g) below
Real estate	UBS Trumbull Property Income Fund	119,856	-	-	-	See (g) below
Real estate	SSgA Global Real Estate NL Common Trust Fund	3,245,794	4,749,835	-	-	See (h) below
Hedge	50 South Capital Alpha Strategies Fund	489,588	9,673,438	-	-	See (i) below
Hedge	Acadian Emerging Markets Equity Fund	6,951,154	6,152,857	-	-	See (j) below
Hedge	Caxton Global Investment Fund	3,594,643	-	-	-	See (k) below
Hedge	Renaissance	2,535,462	-	-	-	See (l) below
Hedge	Voya Mortgage Investment Fund	3,074,738	-	-	-	See (m) below
Private debt	Crescent Capital BDC, Inc.	-	4,502,734	-	359,546	See (n) below
Private debt	Benefits Street Partners Debt Fund IV	3,101,465	2,630,720	1,111,588	1,821,203	See (o) below
Private debt	Varde Debt Fund XIII	1,735,361	300,949	1,500,000	2,700,000	See (p) below
MLP	Lombard International/Harvest MLP Income III Fund	1,838,768	5,456,448	-	-	See (q) below
C.I.F. Equity	Northern Trust Common US Market Index – NL	58,710,406	55,903,808	-	-	See (r) below
C.I.F. Equity	State Street MSCI EAFE Index NL CTF	30,006,382	28,276,665	-	-	See (s) below
C.I.F. Equity	State Street MSCI Canada Index CTF	3,033,695	2,868,378	-	-	See (t) below
		<u>\$ 167,989,510</u>	<u>\$ 159,294,258</u>	<u>\$ 24,131,038</u>	<u>\$ 26,441,749</u>	

- (a) **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.
- (b) **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.

Notes to Financial Statements

---

**Note 3. Fair Value Measurements (Continued)**

- (c) **Commonfund Capital Venture Partners XII and XIII:** Commonfund Capital Ventures Partners XII and XIII funds seek 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.
- (d) **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.
- (e) **Adams Street Global Funds (2016, 2017, 2018, 2019, 2020 and Co-Investment Fund IV):** 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 to create a globally diversified private equity portfolio that invests in venture capital, leveraged buyouts, mezzanine/subordinated debt and restructuring/distressed debt partnerships. The Co-Investment Fund invests in a portfolio of co-investments with private equity sponsors to generate long-term capital appreciation directly in equity, equity-related and debt securities of companies in buyout transactions and investments in growth-equity stage companies. 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.
- (f) **Legacy Ventures Fund X:** Legacy Ventures Fund X invests in highly sought after, early-stage venture capital funds, which further invest in promising start-up companies. The Legacy Venture X fund is a Delaware limited liability company in which the Society subscribes to a set capital commitment level. Investor redemptions are not permitted from the fund, and distributions may be made at the manager's discretion as investments reach maturity.
- (g) **UBS Trumbull Property Fund and Property Income 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) **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.



Notes to Financial Statements

---

**Note 3. Fair Value Measurements (Continued)**

- (i) **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.
- (j) **Acadian Emerging Markets Equity Fund:** The Acadian Emerging Markets Equity Fund is a fund-of-funds that seeks long term capital appreciation by investing primarily in common stocks of emerging country issuers. The Fund's performance benchmark is the Morgan Stanley Capital International Index of Emerging Markets. A written notice period of 30 days is required to redeem shares. For any withdrawal made within 180 days of a contribution, the Fund reserves the right to charge up to a 2.5% withdrawal fee on the portion of the redeemed amount attributable to contributions made within such 180-day period.
- (k) **Caxton Global Investment Fund:** The Caxton Global Investment Fund's principal activity is trading in the international currency, financial commodities and securities markets. The Fund pursues several strategies for purposes of seeking capital appreciation which include cross-currency transactions, securities and derivatives trading, and various credit and relative value strategies. Redemptions are permitted on a quarterly basis with 45-day notice.
- (l) **Renaissance:** Renaissance Institutional Diversified Global Equities Fund (RIDGE) is a market-neutral, long/short equities fund. The Fund currently invests in equity securities listed on global exchanges (directly and indirectly through swaps). The fund's investment universe may expand to equities traded in additional developed or emerging markets as research develops. Redemptions are permitted monthly with 30-day notice.
- (m) **Voya Mortgage Investment Fund:** The investment objective of the Voya Mortgage Investment Fund is to generate attractive risk adjusted returns by investing primarily in the US residential mortgage-backed securities. The fund may enter into repurchase and reverse repurchase agreements and invest in futures contracts, forward contracts, options, swaps, swaptions, and other derivative transactions. There is a 1-year lock-up period, after which redemptions are permitted quarterly with a 65-day notice.
- (n) **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. Through the year ended December 31, 2019, the Society's committed capital was locked up, pending a planned IPO by the company. The IPO occurred on February 3, 2020. As of August 2020, following the conclusion of a 180-day post-IPO lock-up period, the Society became able to sell their ownership shares at will. The investment has been reclassified from NAV to Level 1 within the fair value hierarchy as of December 31, 2020.

Notes to Financial Statements

---

**Note 3. Fair Value Measurements (Continued)**

- (o) **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-up during the 7-year term and are not redeemable; however, cash related to net interest earned on the investments will be distributed on a quarterly basis.
- (p) **Varde Fund XIII:** The Varde Fund XIII is a pooled investment fund that invests globally in opportunistic credit and credit-related distressed assets including corporate and government issued instruments, financial service companies that originate small balance commercial and consumer credits, and real estate assets and secured debt. Funds are locked-up during the 10-year term and are not redeemable.
- (q) **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.
- (r) **Northern Trust Common U.S. Investable Market Index Fund:** The fund's strategy is to approximate risk and return characteristics of the MSCI U.S. Investable Market Index, which represents large, mid- and-small cap companies in the U.S. There are no restrictions on redemptions.
- (s) **State Street MSCI EAFE Market Index Non-Lending Common Trust Fund:** The fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the MSCI EAFE Index over the long term. The fund attempts to achieve its investment objective, in part, by investing in collective investment fund(s), each an underlying fund, managed by the Trustee, which have characteristics consistent with the fund's overall investment objective. There are no restrictions on redemptions.
- (t) **State Street MSCI Canada Index Non-Lending Common Trust Fund:** The fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the MSCI Canada Index over the long term. There are no restrictions on redemptions.

## Air Force Aid Society, Inc.

### Notes to Financial Statements

---

#### Note 4. 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. Donor-restricted assets unavailable for current operations include donor contributions to the corpus of endowments, which are considered restricted in perpetuity (see Note 7 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 long-term spending guideline target of 4.5% to manage the amount of funds that are drawn down each year to fund operations. To provide the necessary liquidity in the portfolio to fund regular operations and any emergency that would require additional funding (hurricane or other disasters), the Finance Committee places a limit on illiquid investments such that they cannot exceed 40% of the portfolio value. Illiquid investments consisted of alternative investments in private equity funds and private debt funds as of December 31, 2020 and 2019 (see Note 3 regarding investments).

Financial assets available to fund general expenditures within one year were as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 1,258,075	\$ 1,461,085
Investments	227,029,849	206,000,903
Emergency assistance and education loan receivable, net	1,964,469	3,767,436
Promises to give	71,559	35,329
Total financial assets	230,323,952	211,264,753
Less investments with donor restrictions	(2,289,947)	(2,120,920)
Less investments with no liquidity provision	(42,253,614)	(33,063,320)
Less conditional grants subject to donor recall	(2,103,114)	(241,502)
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 183,677,277</u>	<u>\$ 175,839,011</u>

## Air Force Aid Society, Inc.

### Notes to Financial Statements

---

#### Note 5. Property and Equipment

Property and equipment consisted of the following at December 31, 2020 and 2019:

	2020	2019
Furniture and equipment	\$ 295,221	\$ 351,759
Capitalized software	1,593,158	1,729,722
Computer equipment	149,470	183,546
	<u>2,037,849</u>	<u>2,265,027</u>
Less accumulated depreciation and amortization	(1,951,368)	(2,020,333)
	<u>\$ 86,481</u>	<u>\$ 244,694</u>

#### Note 6. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31, 2020 and 2019:

	2020	2019
Endowment fund*	\$ 2,155,908	\$ 1,917,804
Purpose restricted for specific Society programs	62,480	168,812
Time restricted	71,559	34,304
	<u>\$ 2,289,947</u>	<u>\$ 2,120,920</u>

Net assets released from restrictions consisted of the following during the years ended December 31, 2020 and 2019:

	2020	2019
Purpose restricted for specific Society programs	\$ 120,832	\$ 102,532
Endowment fund*	89,333	237,058
Time restricted	34,304	75,180
	<u>\$ 244,469</u>	<u>\$ 414,770</u>

\*See Note 7 for detail of endowment funds.

#### Note 7. 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 U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

## Air Force Aid Society, Inc.

### Notes to Financial Statements

---

#### Note 7. Endowment (Continued)

**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 deciding 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, 2020:

	<u>With Donor Restrictions</u>		
	Subject to Expenditure for Specified Purpose	Endowment Given in Perpetuity	Total
Balances at January 1, 2020	\$ -	\$ 1,917,804	\$ 1,917,804
Contributions	-	105,000	105,000
Investment return, net	222,437	-	222,437
Total income	222,437	2,022,804	2,245,241
Appropriation of endowment assets for expenditure	(89,333)	-	(89,333)
Balances at December 31, 2020	<u>\$ 133,104</u>	<u>\$ 2,022,804</u>	<u>\$ 2,155,908</u>

## Air Force Aid Society, Inc.

### Notes to Financial Statements

---

#### Note 7. Endowment (Continued)

Changes in endowment net assets for the year ended December 31, 2019:

	With Donor Restrictions		
	Subject to Expenditure for Specified Purpose	Endowment Given in Perpetuity	Total
Balances at January 1, 2019	\$ (63,004)	\$ 1,917,804	\$ 1,854,800
Contributions	-	-	-
Investment return, net	300,062	-	300,062
Total income	237,058	1,917,804	2,154,862
Appropriation of endowment assets for expenditure	(237,058)	-	(237,058)
Balances at December 31, 2019	\$ -	\$ 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 \$0 at both December 31, 2020 and 2019.

**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.

**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, 2020, the full investment portfolio is invested using a target asset mix of 43% equity, 20% fixed income securities and cash, and 37% alternative investments, per the Board approved investment policy, in an effort to generate returns to cover the long-term return objective of 5% plus CPI. The total return generated by the endowment is used each year to fund the education grants designated by donor restriction.

## Air Force Aid Society, Inc.

### Notes to Financial Statements

---

#### Note 8. Educational Program Expenses

Educational program expenses consisted of the following for the years ended December 31, 2020 and 2019:

	2020	2019
General H.H. Arnold Education Grants	\$ 5,263,390	\$ 4,861,107
Merit-based Scholarships	139,394	183,532
Educational Program Administration	602,337	560,746
	<u>\$ 6,005,121</u>	<u>\$ 5,605,385</u>

#### Note 9. 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 2020 and 2019. During 2020 and 2019, the Society contributed \$187,449 and \$182,160, 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, owned by the employee, with a value of 50% of the employee's estimated ending salary up to a max of \$50,000. The liability for post-retirement life insurance was \$249,469 and \$286,340 for the years ended December 31, 2020 and 2019, respectively.

#### Note 10. Commitments and Contingencies

**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, 2020 and 2019 was \$0. The Society moved to new office space contributed by the Department of the Air Force effective September 1, 2018, as discussed in Note 1.

**COVID-19:** On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. The coronavirus and actions taken to mitigate the spread of it have had, and may continue to have, an adverse impact on the economies and financial markets of many countries, including the United States of America.

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Society. The extent of the impact of COVID-19 on the Society's operations and financial performance are uncertain and cannot be predicted. Management continues to monitor the impact of COVID-19 and will adjust operations accordingly.

**Air Force Aid Society, Inc.**

**Notes to Financial Statements**

**Note 11. Functional Expenses**

The detail of functional and natural expenses of the Society were as follows for the year ended December 31, 2020:

	Program Services				Supporting Services			Total
	Educational Assistance	Emergency Assistance	Community Enhancement	Total Program Services Expenses	Management and General	Fundraising	Total Supporting Services Expenses	
Grants and conversions	\$ 5,380,384	\$ 2,745,490	\$ 822,608	\$ 8,948,482	\$ -	\$ -	\$ -	\$ 8,948,482
Salary and benefits	412,242	1,154,277	144,285	1,710,804	885,992	323,904	1,209,896	2,920,700
Charity ball and AFAF campaign	-	-	-	-	-	99,911	99,911	99,911
Occupancy	48,623	136,144	17,018	201,785	107,317	38,204	145,521	347,306
Professional services	2,665	7,463	933	11,061	5,882	2,094	7,976	19,037
IT systems upgrade and maintenance	92,401	258,724	32,340	383,465	203,943	72,601	276,544	660,009
Depreciation and amortization	27,245	76,287	9,536	113,068	60,134	21,407	81,541	194,609
Marketing initiatives	-	-	-	-	128,902	-	128,902	128,902
Miscellaneous	8,978	49,874	3,142	61,994	69,718	7,054	76,772	138,766
Maintenance agreements and contracts	17,645	49,405	6,176	73,226	38,944	13,864	52,808	126,034
Office expense	9,098	28,395	3,184	40,677	20,080	7,148	27,228	67,905
Accounting fees	-	-	-	-	46,896	-	46,896	46,896
Insurance	5,209	14,584	1,823	21,616	11,496	4,092	15,588	37,204
Travel	631	1,767	221	2,619	1,393	496	1,889	4,508
<b>Total expenses by program</b>	<b>\$ 6,005,121</b>	<b>\$ 4,522,410</b>	<b>\$ 1,041,266</b>	<b>\$ 11,568,797</b>	<b>\$ 1,580,697</b>	<b>\$ 590,775</b>	<b>\$ 2,171,472</b>	<b>\$ 13,740,269</b>
Percentage of total expenses	44%	33%	7%	84%	12%	4%	16%	100%

The above Emergency Assistance "Grants and conversions" line reflects only \$2,745,490 in grants and none of the approximately \$3.2 million in no-interest loans distributed during 2020, which per accounting rules remain a statement of financial position asset until paid off. In 2020, the Air Force Aid Society was able to assist 15,300 emergency assistance cases through a combination of grants and/or no-interest loans.



**Air Force Aid Society, Inc.**

**Notes to Financial Statements**

**Note 11. Functional Expenses (Continued)**

The detail of functional and natural expenses of the Society were as follows for the year ended December 31, 2019:

	Program Services				Supporting Services			Total
	Educational Assistance	Emergency Assistance	Community Enhancement	Total Program Services Expenses	Management and General	Fundraising	Total Supporting Services Expenses	
Grants and conversions	\$ 5,012,638	\$ 1,214,657	\$ 1,405,349	\$ 7,632,644	\$ -	\$ -	\$ -	\$ 7,632,644
Salary and benefits	402,232	1,131,994	140,781	1,675,007	856,336	318,912	1,175,248	2,850,255
Charity ball and AFAF campaign	-	-	-	-	-	307,126	307,126	307,126
Occupancy	47,804	134,535	16,732	199,071	104,487	37,902	142,389	341,460
Professional services	33,255	93,589	11,639	138,483	72,686	26,366	99,052	237,535
IT systems upgrade and maintenance	33,109	93,179	11,588	137,876	72,367	26,251	98,618	236,494
Depreciation and amortization	36,704	103,294	12,846	152,844	80,224	29,101	109,325	262,169
Marketing Initiatives	-	-	-	-	113,293	-	113,293	113,293
Miscellaneous	3,537	70,333	1,237	75,107	54,290	2,804	57,094	132,201
Maintenance agreements and contracts	16,606	46,735	5,812	69,153	36,297	13,166	49,463	118,616
Office expense	9,685	29,537	5,762	44,984	21,168	7,678	28,846	73,830
Accounting fees	-	-	-	-	46,800	-	46,800	46,800
Insurance	5,051	14,215	1,768	21,034	11,040	4,005	15,045	36,079
Travel	4,764	13,408	1,668	19,840	10,414	3,777	14,191	34,031
Total expenses by program	\$ 5,605,385	\$ 2,945,476	\$ 1,615,182	\$ 10,166,043	\$ 1,479,402	\$ 777,088	\$ 2,256,490	\$ 12,422,533
Percentage of total expenses	45%	24%	13%	82%	12%	6%	18%	100%

The above Emergency Assistance "Grants and conversions" line reflects only \$1,214,657 in grants and none of the approximately \$6.1 million in no-interest loans distributed during 2019, which per accounting rules remain a statement of financial position asset until paid off. In 2019, the Air Force Aid Society was able to assist 8,414 emergency assistance cases through a combination of grants and/or no-interest loans.