

Air Force Aid Society, Inc.

Financial Report
December 31, 2021

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RSM US LLP

Independent Auditor's Report

Board of Trustees
Air Force Aid Society, Inc.

Opinion

We have audited the financial statements of Air Force Aid Society, Inc. (the Society), which comprise the statements of financial position as of December 31, 2021 and 2020, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Air Force Aid Society, Inc. as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the Society and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the contents of "2021 AFAS Annual Report" but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

RSM US LLP

McLean, Virginia
September 6, 2022

Air Force Aid Society, Inc.

**Statements of Financial Position
December 31, 2021 and 2020**

	2021	2020
Assets		
Cash and cash equivalents	\$ 1,023,465	\$ 1,258,075
Investments	258,373,806	227,029,849
Emergency assistance and education loans receivable, net	2,426,386	1,964,469
Promises to give	194,150	71,559
Other assets	396,290	72,140
Property and equipment, net	68,068	86,481
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Total assets	\$ 262,482,165	\$ 230,482,573
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Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 568,718	\$ 273,028
Refundable advances	1,950,600	2,103,114
Other liabilities	505,593	561,640
Total liabilities	3,024,911	2,937,782
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Commitments and contingencies (Notes 3 and 10)		
Net assets:		
Without donor restrictions	256,889,822	225,254,844
With donor restrictions	2,567,432	2,289,947
Total net assets	259,457,254	227,544,791
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Total liabilities and net assets	\$ 262,482,165	\$ 230,482,573
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See notes to financial statements.

Air Force Aid Society, Inc.

**Statements of Activities
Years Ended December 31, 2021 and 2020**

	2021	2020
Activities without donor restrictions:		
Operating revenues:		
Contributions:		
Air Force Assistance Fund	\$ 1,382,283	\$ 1,757,157
Other donations	1,984,789	4,379,896
Donated non-financial assets	359,565	347,305
Total contributions	3,726,637	6,484,358
Investment return designated for current operations	8,742,400	8,992,117
Other	-	4,816
Net assets released from restrictions	219,202	244,469
Total operating revenues	12,688,239	15,725,760
Expenses:		
Program services:		
Educational assistance	5,860,391	6,005,121
Emergency assistance	4,447,078	4,522,410
Community enhancement	1,955,099	1,041,266
Total program services expenses	12,262,568	11,568,797
Supporting services:		
Management and general	1,886,123	1,580,697
Fundraising	876,083	590,775
Total supporting services	2,762,206	2,171,472
Total expenses	15,024,774	13,740,269
Change in net assets from operations	(2,336,535)	1,985,491
Nonoperating activities:		
Investment return net of amounts designated for current operations	33,971,513	14,900,257
Change in net assets without donor restrictions	31,634,978	16,885,748
Activities with donor restrictions:		
Contributions	241,819	191,059
Endowment investment return	254,868	222,437
Net assets released from restrictions	(219,202)	(244,469)
Change in net assets with donor restrictions	277,485	169,027
Change in net assets	31,912,463	17,054,775
Net assets:		
Beginning	227,544,791	210,490,016
Ending	\$ 259,457,254	\$ 227,544,791

See notes to financial statements.

Air Force Aid Society, Inc.

Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 31,912,463	\$ 17,054,775
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Stock gifts	(3,925)	(5,543)
Depreciation and amortization	38,573	194,609
Bad debt expense	27,093	18,466
Net realized and unrealized gain on investments	(38,462,519)	(21,013,013)
Changes in assets and liabilities:		
(Increase) decrease in:		
Emergency assistance and education loans receivable	(489,010)	1,784,501
Promises to give	(122,591)	(36,230)
Other assets	(324,150)	119,510
Increase (decrease) in:		
Accounts payable and accrued expenses	295,690	(72,838)
Refundable advances	(152,514)	1,861,612
Other liabilities	(56,047)	(62,073)
Net cash used in operating activities	(7,336,937)	(156,224)
Cash flows from investing activities:		
Purchases of investments	(174,890,160)	(89,271,991)
Proceeds from sales and maturities of investments	182,012,647	89,261,601
Purchases of property and equipment	(20,160)	(36,396)
Net cash provided by (used in) investing activities	7,102,327	(46,786)
Net decrease in cash and cash equivalents	(234,610)	(203,010)
Cash and cash equivalents:		
Beginning	1,258,075	1,461,085
Ending	\$ 1,023,465	\$ 1,258,075

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 \$2,500 and \$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. Eligible members may apply through a Standard or Falcon Loan application. 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 2021, the Society provided \$5.1 million in emergency assistance support to Air and Space Force eligible members, including those affected by the COVID-19 pandemic, assisting over 7,394 families. The Society continued to support natural and other disasters throughout the year which included a severe winter storm, Hurricane Ida and the petroleum oil spill at Joint Base Pearl Harbor-Hickam. Assistance was provided to 1,796 eligible members in disaster relief for a total of \$1.1 million. Although the pandemic caused many college students to attend classes virtually, the Society was still able to provide \$5.7 million in grants and scholarships to 1,981 students so that they could continue their education.

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. Childcare became a huge concern for members and their families as the COVID-19 pandemic continued to cause a shortage in childcare at Air Force installations. The Society was able to provide up to \$1,500 in reimbursable expenses per member for childcare totaling \$1 million in support.

Air Force Aid Society, Inc.

Notes to Financial Statements

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

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 Air Force Assistance Fund (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 \$556,546 and \$880,059 for the Society, net of all event expenses, during the years ended December 31, 2021 and 2020, 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 statements 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, 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 accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

Air Force Aid Society, Inc.

Notes to Financial Statements

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

Investments: Investments consisted of common stock and bond index funds, U.S. Treasury bills, 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 alternative 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 administrators and external investment managers and may include information based on historical cost appraisals, obtainable prices for similar assets or other estimates.

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 \$27,093 and \$18,466 as of December 31, 2021 and 2020, respectively. The Society estimated an allowance for doubtful accounts based on management's experience and collection efforts, which amounted to \$65,591 and \$55,767 as of December 31, 2021 and 2020, 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, 2021 and 2020, 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.

Air Force Aid Society, Inc.

Notes to Financial Statements

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

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

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 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 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 \$359,565 and \$347,305 for the years ended December 31, 2021 and 2020, 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 4.43% for 2021 and 4.68% for 2020.

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.

Air Force Aid Society, Inc.

Notes to Financial Statements

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

Recent accounting pronouncements: In June 2016, the FASB issued Accounting Standards Update (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 statement 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 statement 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 2020 amounts have been reclassified to conform to the 2021 presentation with no effect on the previously reported total change in net assets.

Subsequent events: Subsequent events have been evaluated through September 6, 2022, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments consist of the following at December 31, 2021 and 2020:

	2021	2020
Cash	\$ 1,921,967	\$ -
Money market funds	1,194,786	1,004,854
Mutual funds	105,061,747	7,713,861
U.S. Treasury bills	824,837	-
U.S. common stock	1,009	4,176,616
U.S. Treasury and federal agency securities	30,192,174	23,285,745
Corporate, foreign and municipal bonds	21,139,904	22,859,263
Collective investment funds	-	91,750,483
Alternative investments	98,037,382	76,239,027
	<u>\$258,373,806</u>	<u>\$227,029,849</u>

Air Force Aid Society, Inc.

Notes to Financial Statements

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, 2021 and 2020.

Investments measured at fair value on a recurring basis by level within the hierarchy as of December 31, 2021:

	Reported at Fair Value				Investments Reported at Net Asset Value
	Total	Level 1	Level 2	Level 3	
Investments, at fair value and NAV:					
Money market funds	\$ 1,194,786	\$ 1,194,786	\$ -	\$ -	\$ -
Equity investment funds:					
Mutual funds—equity	104,719,828	104,719,828	-	-	-
U.S. common stock	1,009	1,009	-	-	-
Subtotal—equity investment funds	<u>104,720,837</u>				
Fixed income funds:					
U.S. Treasury bills	824,837	824,837	-	-	-
U.S. Treasury and federal agencies	30,192,174	-	30,192,174	-	-
Corporate bonds	19,222,322	-	19,222,322	-	-
Foreign bonds	1,755,516	-	1,755,516	-	-
Mutual fund—aggregate bond	303,000	303,000	-	-	-
Mutual fund—government obligations	38,919	38,919	-	-	-
Municipal bonds	162,066	-	162,066	-	-
Subtotal—fixed income funds	<u>52,498,834</u>				
Alternative investment funds:					
Private equity funds	55,735,188	-	-	-	55,735,188
Hedge funds	22,536,479	-	-	-	22,536,479
Real estate investment trust	11,943,613	-	-	-	11,943,613
Private debt funds	7,764,503	-	-	-	7,764,503
MLP fund	57,599	-	-	-	57,599
Subtotal—alternative investment funds	<u>98,037,382</u>				
Investments carried at fair value and NAV	<u>256,451,839</u>	<u>\$ 107,082,379</u>	<u>\$ 51,332,078</u>	<u>\$ -</u>	<u>\$ 98,037,382</u>
Investments, at cost:					
Cash	1,921,967				
Total investments	<u>\$ 258,373,806</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, 2020:

	Reported at Fair Value				Investments Reported at Net Asset Value
	Total	Level 1	Level 2	Level 3	
Investments, at fair value and NAV:					
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>\$ 12,895,331</u>	<u>\$ 46,145,008</u>	<u>\$ -</u>	<u>\$ 167,989,510</u>

The Society's investments in money market funds, mutual funds, common stock and U.S. Treasury bills are classified as Level 1 items given that they have quoted prices in active markets for identical assets at the measurement date.

The Society's investments in fixed income funds 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, 2021 and 2020:

Fund Type	Investment fund name	December 31,	December 31,	December 31,	December 31,	Redemption Frequency and Notice
		2021 NAV	2020 NAV	2021 Unfunded Commitments	2020 Unfunded Commitments	
Private equity	Commonfund Capital Partners V	\$ 15,634,221	\$ 14,661,836	\$ 1,160,500	\$ 1,160,500	See (a) below
Private equity	Commonfund Natural Resources X	2,008,101	1,588,640	390,000	583,750	See (b) below
Private equity	Commonfund Natural Resources XI	1,270,514	552,877	960,000	1,335,000	See (b) below
Private equity	Commonfund Capital Venture Partners XII	5,853,654	2,523,328	656,250	1,583,750	See (c) below
Private equity	Commonfund Capital Venture Partners XIII	2,235,775	717,441	800,000	1,540,000	See (c) below
Private equity	Commonfund Capital International Partners IX	1,280,660	704,861	656,250	1,020,000	See (d) below
Private equity	Adams Street 2015 Global Fund	6,802,491	5,071,518	644,000	998,000	See (e) below
Private equity	Adams Street 2016 Global Fund	5,515,625	3,692,327	1,121,200	1,367,200	See (e) below
Private equity	Adams Street 2017 Global Fund	5,592,852	3,248,896	1,097,000	1,658,000	See (e) below
Private equity	Adams Street 2018 Global Fund	3,467,031	1,729,124	1,662,500	2,224,250	See (e) below
Private equity	Adams Street 2019 Global Fund	1,361,146	361,853	1,303,993	1,838,000	See (e) below
Private equity	Adams Street 2020 Global Fund	717,209	105,651	1,579,886	1,960,000	See (e) below
Private equity	Adams Street Co-Investment Fund IV	3,183,973	2,372,418	1,094,252	1,341,000	See (e) below
Private equity	Adams Street Co-Investment Fund V	-	-	3,000,000	-	See (e) below
Private equity	Legacy Ventures Fund X	811,936	86,018	2,250,000	2,910,000	See (f) below
Real estate	UBS Trumbull Property Fund	11,636,670	12,135,410	-	-	See (g) below
Real estate	UBS Trumbull Property Income Fund	306,943	119,856	-	-	See (g) below
Real estate	SSgA Global Real Estate NL Common Trust Fund	-	3,245,794	-	-	See (h) below
Hedge	50 South Capital Alpha Strategies Fund	-	489,588	-	-	See (i) below
Hedge	Acadian Emerging Markets Equity Fund	7,566,960	6,951,154	-	-	See (j) below
Hedge	Caxton Global Investment Fund	4,916,973	3,594,643	-	-	See (k) below
Hedge	Renaissance	5,346,436	2,535,462	-	-	See (l) below
Hedge	Voya Mortgage Investment Fund	4,706,110	3,074,738	-	-	See (m) below
Private debt	Benefits Street Partners Debt Fund IV	4,424,656	3,101,465	219,739	1,111,588	See (n) below
Private debt	Varde Debt Fund XIII	2,074,991	1,735,361	1,305,000	1,500,000	See (o) below
Private debt	MGG SF Evergreen Fund (CAYMAN) LP	1,264,856	-	4,668,934	-	See (p) below
MLP	Lombard International/Harvest MLP Income III Fur	57,599	1,838,768	-	-	See (q) below
C.I.F. Equity	Northern Trust Common US Market Index – NL	-	58,710,406	-	-	See (r) below
C.I.F. Equity	State Street MSCI EAFE Index NL CTF	-	30,006,382	-	-	See (s) below
C.I.F. Equity	State Street MSCI Canada Index CTF	-	3,033,695	-	-	See (t) below
		<u>\$ 98,037,382</u>	<u>\$ 167,989,510</u>	<u>\$ 24,569,504</u>	<u>\$ 24,131,038</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 U.S. 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:** 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 two days is required to redeem significant shares; however, there are no limits on the frequency of the Society's ability to redeem shares. The Society's shares were fully redeemed during 2021, and there is no remaining investment as of December 31, 2021.

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. The Society's shares were fully redeemed during 2021, and there is no remaining investment as of December 31, 2021.
- (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 U.S. 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 one-year lock-up period after which, redemptions are permitted quarterly with a 65-day notice.
- (n) **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 seven-year term and are not redeemable; however, cash related to net interest earned on the investments will be distributed on a quarterly basis.
- (o) **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.

Notes to Financial Statements

Note 3. Fair Value Measurements (Continued)

- (p) **MGG SF Evergreen Fund (CAYMAN) LP:** MGG SF Evergreen Fund (Cayman) LP (the Feeder Fund) is a Cayman Islands exempted limited partnership that invests substantially all of its capital into MGG SF Evergreen Master Fund (Cayman) LP (the Master Fund). The Master Fund is a Cayman Islands exempted limited partnership that was formed for the purpose of making investments primarily in debt securities in middle-market businesses, primarily operating in the U.S., and engagement in all activities and transactions as the General Partner may deem necessary or advisable in connection therewith. Each limited partner's commitment is subject to a lockup period that begins on the initial closing date of the commitment and ends on the fourth full fiscal quarter following the date of initial capital contribution related to that commitment. Subsequent to the lockup period, each limited partner will have the right to withdraw as of the last day of each fiscal quarter with 90 days prior written notice to the General Partner.
- (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. The Society's shares were fully redeemed during 2021 except for a holdback amount of \$57,599 which was redeemed April 2022 after the completion of Harvest MLP Income III Fund's December 31, 2021 audit.
- (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. The Society's shares were fully redeemed during 2021, and there is no remaining investment as of December 31, 2021.
- (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. The Society's shares were fully redeemed during 2021, and there is no remaining investment as of December 31, 2021.
- (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. The Society's shares were fully redeemed during 2021, and there is no remaining investment as of December 31, 2021.

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, 2021 and 2020 (see Note 3 regarding investments).

Financial assets available to fund general expenditures within one year were as follows for the years ended December 31, 2021 and 2020:

	2021	2020
Cash and cash equivalents	\$ 1,023,465	\$ 1,258,075
Investments	258,373,806	227,029,849
Emergency assistance and education loan receivable, net	2,426,386	1,964,469
Promises to give	194,150	71,559
Total financial assets	<u>262,017,807</u>	<u>230,323,952</u>
Less investments with donor restrictions	(2,567,432)	(2,289,947)
Less investments with no liquidity provision	(63,499,691)	(42,253,614)
Less conditional grants subject to donor recall	(1,950,600)	(2,103,114)
Financial assets available to meet cash needs for general expenditure within one year	<u>\$194,000,084</u>	<u>\$183,677,277</u>

Note 5. Property and Equipment

Property and equipment consisted of the following at December 31, 2021 and 2020:

	2021	2020
Furniture and equipment	\$ 296,732	\$ 295,221
Capitalized software	1,593,158	1,593,158
Computer equipment	168,119	149,470
	<u>2,058,009</u>	<u>2,037,849</u>
Less accumulated depreciation and amortization	(1,989,941)	(1,951,368)
	<u>\$ 68,068</u>	<u>\$ 86,481</u>

Air Force Aid Society, Inc.

Notes to Financial Statements

Note 6. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31, 2021 and 2020 :

	2021	2020
Endowment fund*	\$ 2,386,613	\$ 2,155,908
Purpose restricted for specific Society programs	-	62,480
Time restricted	180,819	71,559
	<u>\$ 2,567,432</u>	<u>\$ 2,289,947</u>

Net assets released from restrictions consisted of the following during the years ended December 31, 2021 and 2020:

	2021	2020
Purpose restricted for specific Society programs	\$ 62,480	\$ 120,832
Endowment fund*	85,163	89,333
Time restricted	71,559	34,304
	<u>\$ 219,202</u>	<u>\$ 244,469</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.

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

Air Force Aid Society, Inc.

Notes to Financial Statements

Note 7. Endowment (Continued)

- (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, 2021:

	<u>With Donor Restrictions</u>		
	Subject to Expenditure for Specified Purpose	Endowment Given in Perpetuity	Total
Balances at January 1, 2021	\$ 133,104	\$ 2,022,804	\$ 2,155,908
Contributions	-	61,000	61,000
Investment return, net	254,868	-	254,868
Appropriation of endowment assets for expenditure	(85,163)	-	(85,163)
Balances at December 31, 2021	<u>\$ 302,809</u>	<u>\$ 2,083,804</u>	<u>\$ 2,386,613</u>

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
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>

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 U.S. GAAP, 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, 2021 and 2020.

Air Force Aid Society, Inc.

Notes to Financial Statements

Note 7. Endowment (Continued)

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, 2021, 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.

Note 8. Educational Program Expenses

Educational program expenses consisted of the following for the years ended December 31, 2021 and 2020 :

	2021	2020
General H.H. Arnold Education Grants	\$ 5,187,007	\$ 5,263,390
Merit-based Scholarships	100,000	139,394
Educational Program Administration	573,384	602,337
	<u>\$ 5,860,391</u>	<u>\$ 6,005,121</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 2021 and 2020. During 2021 and 2020, the Society contributed \$226,723 and \$187,449, 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.

Air Force Aid Society, Inc.

Notes to Financial Statements

Note 9. Retirement Plan and Post-Retirement Benefit (Continued)

As a retirement benefit, the Society provides life insurance benefits to any employee that retires from the Society with more than 10 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 \$285,162 and \$249,469 for the years ended December 31, 2021 and 2020, respectively.

Note 10. Commitments and Contingencies

Office lease: The Society utilizes office space contributed by the Department of the Air Force effective September 1, 2018, as discussed in Note 1. Rent expense paid by the Society for the years ended December 31, 2021 and 2020, was \$0.

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, 2021:

	Program Services			Total Program Services Expenses	Supporting Services			Total
	Educational Assistance	Emergency Assistance	Community Enhancement		Management and General	Fundraising	Total Supporting Services Expenses	
Grants and conversions	\$ 5,287,007	\$ 2,634,697	\$ 1,779,150	\$ 9,700,854	\$ -	\$ -	\$ -	\$ 9,700,854
Salary and benefits	408,358	1,266,956	125,649	1,800,963	1,184,514	478,162	1,662,676	3,463,639
Occupancy	42,069	130,522	12,944	185,535	124,769	49,260	174,029	359,564
Fund raising	-	-	-	-	-	190,000	190,000	190,000
Depreciation and amortization	4,513	14,002	1,389	19,904	13,385	5,284	18,669	38,573
IT Systems upgrade/maintenance	60,827	188,719	18,716	268,262	180,401	71,225	251,626	519,888
Maintenance agreements/contracts	17,102	53,060	5,262	75,424	50,722	20,026	70,748	146,172
Professional services	13,227	41,039	4,070	58,336	39,230	15,488	54,718	113,054
Marketing	-	-	-	-	127,101	16,500	143,601	143,601
Miscellaneous	13,625	72,929	3,715	90,269	78,474	14,138	92,612	182,881
Office expense	6,588	23,203	2,027	31,818	19,540	7,715	27,255	59,073
Accounting fees	-	-	-	-	47,004	-	47,004	47,004
Insurance	3,581	11,112	1,102	15,795	10,622	4,194	14,816	30,611
Travel	3,494	10,839	1,075	15,408	10,361	4,091	14,452	29,860
Total	\$ 5,860,391	\$ 4,447,078	\$ 1,955,099	\$ 12,262,568	\$ 1,886,123	\$ 876,083	\$ 2,762,206	\$ 15,024,774
Percentage of total expenses	39%	30%	13%	82%	12%	6%	18%	100%

The above Emergency Assistance "Grants and conversions" line reflects only \$2,634,697 in grants and none of the approximately \$3.5 million in no-interest loans distributed during 2021 which, per accounting rules, remain a statement of financial position asset until paid off. In 2021, the Air Force Aid Society was able to assist 7,394 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, 2020:

	Program Services			Total Program Services Expenses	Supporting Services			Total
	Educational Assistance	Emergency Assistance	Community Enhancement		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
Total	\$ 6,005,121	\$ 4,522,410	\$ 1,041,266	\$ 11,568,797	\$ 1,580,697	\$ 590,775	\$ 2,171,472	\$ 13,740,269
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 2021, the Air Force Aid Society was able to assist 15,300 emergency assistance cases through a combination of grants and/or no-interest loans.