

AIR FORCE AID SOCIETY, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

AIR FORCE AID SOCIETY, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
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, 2023 and 2022, and the related statements of activities, functional expenses 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 the Society as of December 31, 2023 and 2022, 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 Auditors' Responsibilities for the Audit of the 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 audit. 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 the 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 available to be issued.

Auditors' 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 auditors' 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.

Marcum LLP

Washington, DC
October 28, 2024

AIR FORCE AID SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 1,378,013	\$ 1,414,722
Investments	230,049,565	217,702,290
Emergency assistance and education loans receivable, net of expected credit losses totaling \$41,467 and \$19,861	3,128,035	3,445,767
Promises to give	91,936	36,513
Other assets	734,259	722,510
Property and equipment, net	53,286	53,930
Total Assets	\$ 235,435,094	\$ 223,375,732
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 323,397	\$ 457,969
Refundable advances	187,552	216,250
Taxes payable	53,500	250,515
Other liabilities	582,838	578,639
Total Liabilities	1,147,287	1,503,373
Net Assets		
Without donor restrictions	232,106,031	219,859,580
With donor restrictions	2,181,776	2,012,779
Total Net Assets	234,287,807	221,872,359
Total Liabilities and Net Assets	\$ 235,435,094	\$ 223,375,732

The accompanying notes are an integral part of these financial statements.

AIR FORCE AID SOCIETY, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Revenue and Support		
Contributions:		
Air Force Assistance Fund	\$ 640,054	\$ 802,524
Other donations	3,112,355	4,045,228
Donated non-financial assets	<u>372,062</u>	<u>397,562</u>
Total Contributions	<u>4,124,471</u>	<u>5,245,314</u>
Investment income (loss), net	21,183,937	(29,267,578)
Other	52	6,481
Net assets released from restrictions	<u>91,825</u>	<u>267,108</u>
Total Revenue and Support	<u>25,400,285</u>	<u>(23,748,675)</u>
Expenses		
Program services:		
Emergency assistance	6,246,710	5,396,777
Educational assistance	3,160,108	3,123,817
Community enhancement	<u>400,928</u>	<u>1,144,433</u>
Total Program Services	<u>9,807,746</u>	<u>9,665,027</u>
Supporting services:		
Management and general	2,831,348	2,446,905
Fundraising	<u>514,740</u>	<u>1,169,635</u>
Total Supporting Services	<u>3,346,088</u>	<u>3,616,540</u>
Total Expenses	<u>13,153,834</u>	<u>13,281,567</u>
Change in Net Assets Without Donor Restrictions	12,246,451	(37,030,242)
Activities with donor restrictions:		
Contributions	67,000	7,400
Endowment investment return	193,822	(294,945)
Net assets released from restrictions	<u>(91,825)</u>	<u>(267,108)</u>
Change in Net Assets With Donor Restrictions	168,997	(554,653)
Change in Net Assets	12,415,448	(37,584,895)
Net Assets, Beginning of Year	<u>221,872,359</u>	<u>259,457,254</u>
Net Assets, End of Year	<u>\$ 234,287,807</u>	<u>\$ 221,872,359</u>

The accompanying notes are an integral part of these financial statements.

AIR FORCE AID SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

	Program Services				Supporting Services			Total
	Emergency Assistance	Education Assistance	Community Enhancement	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Grants and conversions	\$ 3,290,278	\$ 2,591,033	\$ 350,867	\$ 6,232,178	\$ --	\$ --	\$ --	\$ 6,232,178
Salary and benefits	2,012,764	398,177	35,005	2,445,946	1,758,980	170,647	1,929,627	4,375,573
Professional services	283,508	56,070	4,929	344,507	247,696	24,030	271,726	616,233
Miscellaneous	172,234	27,913	2,454	202,601	186,160	11,963	198,123	400,724
Occupancy	169,539	33,539	2,949	206,027	148,161	14,374	162,535	368,562
Maintenance agreements/contracts	119,452	23,632	2,077	145,161	104,392	10,126	114,518	259,679
Charity events	--	--	--	--	--	232,724	232,724	232,724
IT Systems upgrade/maintenance	103,942	10,953	995	115,890	78,455	4,779	83,234	199,124
Marketing	--	--	--	--	158,909	38,042	196,951	196,951
Office expenses	43,540	8,613	757	52,910	38,050	3,692	41,742	94,652
Accounting fees	--	--	--	--	65,579	-	65,579	65,579
Travel	24,867	4,919	433	30,219	21,732	2,108	23,840	54,059
Insurance	14,550	2,878	253	17,681	12,716	1,234	13,950	31,631
Depreciation and amortization	12,036	2,381	209	14,626	10,518	1,021	11,539	26,165
Total Expenses	<u>\$ 6,246,710</u>	<u>\$ 3,160,108</u>	<u>\$ 400,928</u>	<u>\$ 9,807,746</u>	<u>\$ 2,831,348</u>	<u>\$ 514,740</u>	<u>\$ 3,346,088</u>	<u>\$ 13,153,834</u>

The accompanying notes are an integral part of these financial statements.

AIR FORCE AID SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Program Services				Supporting Services			Total
	Emergency Assistance	Education Assistance	Community Enhancement	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Grants and conversions	\$ 3,184,895	\$ 2,410,422	\$ 925,696	\$ 6,521,013	\$ --	\$ --	\$ --	\$ 6,521,013
Salary and benefits	1,466,075	472,536	145,396	2,084,007	1,401,454	553,312	1,954,766	4,038,773
Professional services	111,214	35,846	11,029	158,089	106,311	41,973	148,284	306,373
Miscellaneous	143,700	47,019	13,698	204,417	186,591	52,129	238,720	443,137
Occupancy	133,787	43,122	13,268	190,177	127,892	50,493	178,385	368,562
Maintenance agreements/contracts	102,585	33,065	10,174	145,824	98,062	38,717	136,779	282,603
Charity events	--	--	--	--	29,000	188,248	217,248	217,248
IT Systems upgrade/maintenance	178,763	57,618	17,729	254,110	170,884	67,467	238,351	492,461
Marketing	--	--	--	--	250,821	148,972	399,793	399,793
Office expenses	27,077	8,499	2,615	38,191	25,205	9,952	35,157	73,348
Accounting fees	--	--	--	--	4,148	--	4,148	4,148
Travel	24,623	7,936	2,442	35,001	23,538	9,293	32,831	67,832
Insurance	13,419	4,325	1,331	19,075	12,828	5,064	17,892	36,967
Depreciation and amortization	10,639	3,429	1,055	15,123	10,171	4,015	14,186	29,309
Total Expenses	\$ 5,396,777	\$ 3,123,817	\$ 1,144,433	\$ 9,665,027	\$ 2,446,905	\$ 1,169,635	\$ 3,616,540	\$ 13,281,567

The accompanying notes are an integral part of these financial statements.

AIR FORCE AID SOCIETY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Cash Flows From Operating Activities		
Change in Net Assets	\$ 12,415,448	\$ (37,584,895)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Stock gifts	(3,469)	(2,908)
Depreciation and amortization	26,165	29,309
Net realized and unrealized (gain) loss on investments	(17,702,328)	32,128,913
Changes in assets and liabilities:		
Emergency assistance and education loans receivable	317,732	(1,019,381)
Promises to give	(55,423)	157,637
Other assets	(11,749)	(326,220)
Accounts payable and accrued expenses	(134,572)	(110,749)
Refundable advances	(28,698)	(1,734,350)
Taxes payable	(197,015)	250,515
Other liabilities	4,199	73,046
Net Cash Used In Operating Activities	(5,369,710)	(8,139,083)
Cash Flows From Investing Activities		
Purchases of investments	(59,441,366)	(84,160,926)
Proceeds from sales and maturities of investments	64,441,405	91,149,918
Purchases of property and equipment	(25,521)	(15,171)
Net Cash Provided By Investing Activities	4,974,518	6,973,821
Net Decrease in Cash and Cash Equivalents	(395,192)	(1,165,262)
Cash and Cash Equivalents, Beginning of Year	1,780,170	2,945,432
Cash and Cash Equivalents, End of Year	\$ 1,384,978	\$ 1,780,170
Cash and Cash Equivalents As Reported on the Statement of Financial Position		
Cash and cash equivalents	\$ 1,378,013	\$ 1,414,722
Cash and cash equivalents held within investments	6,965	365,448
Total Cash as Report of the Statement of Financial Position	\$ 1,384,978	\$ 1,780,170
Supplemental Cash Flow Information		
Cash paid for income taxes	\$ 412,977	\$ --

The accompanying notes are an integral part of these financial statements.

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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 Military and Family Readiness Centers located at these bases.

PROGRAM SERVICES

The Society's operations include the following programs services:

Education Assistance

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 \$2,000.

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 freshman students. The selection process involves the evaluation of cumulative GPA, high school transcripts and 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 of 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 \$1,500 to assist with emergency financial needs.

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROGRAM SERVICES (CONTINUED)

Community Enhancement

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

SUPPORTING SERVICES

The Society's operations include the following supporting services:

Management and General

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

Fundraising

Fundraising activities include providing support materials for the 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 \$508,823 and \$606,549 for the Society, net of all event expenses, during the years ended December 31, 2023 and 2022, 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 Non-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: net assets with donor restrictions and net assets 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 a 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.

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

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.

CASH AND CASH EQUIVALENTS

Cash on-hand, deposits in banks and short-term highly liquid debt instruments 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 consist 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 based 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 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.

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL RISK (CONTINUED)

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 presented net of an allowance for credit losses, which is an estimate of amounts that may not be collectible. The loss rate is based on management's historical collection experience, adjusted for management's expectations as well as current and future economic conditions. As of December 31, 2023 and 2022 the Society had not increased its historical loss rates. During the year ended December 31, 2023 and 2022 the expected credit loss expense totaled \$21,610 and \$608, respectively. As of December 31, 2023 and 2022, the Society's estimated allowance amounted to \$41,467 and \$19,861, 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 exceed 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, 2023 and 2022, management did not consider 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

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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 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 Military and Family Readiness Center staff are not recorded in the accompanying statements of activities since they do not require specialized skills as defined by 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 office space in Arlington, Virginia for the use of the Society starting September 1, 2018. The fair

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DONATED NON-FINANCIAL ASSETS (CONTINUED)

value of the donated office space was based on the actual leased rate per square foot provided by the Air Force and are utilized within the same year and have no conditions or restrictions upon the spaces use. The amounts have been recorded as offsetting contribution revenue and rent expense in the amount of \$368,562 for the years ended December 31, 2023 and 2022, respectively. The amounts are allocated according to the Society's functional allocation policy and are spread amongst the various program areas included in the accompanying statement of functional expenses.

Additionally, the Society receives certain in-kind services related to its Charity Ball event held annually. The services include photography and event space and are valued at fair value utilizing prevailing market rates and are conditioned upon the event occurring. The amounts have been recorded as offsetting contribution revenue and charity events expense totaling \$3,500 and \$ 29,000 for the years ended December 31, 2023 and 2022, respectively. The donated expense is included in management and general in the accompanying statement of activities.

FUNCTIONAL EXPENSES

Expenses of the Society are reported on a functional basis, separating 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.

USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (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.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU 2016-13 Financial Instruments – *Credit Losses* – (Topic 326). This ASU replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to assess credit loss estimates. The guidance applies to loans, accounts receivable, trade receivables and other financial assets measured at

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS (CONTINUED)

amortized cost, loan commitments, debt securities and beneficial interests in securitized financial assets, but the effect on the Society is limited to loans receivable. The Society adopted the standard using a modified retrospective approach, which did not affect the opening balance of net assets. The accounting pronouncement had no significant impact on the organization aside from enhanced disclosures.

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Fair Value Measurement Topic of FASB ASC 820 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 to 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.

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Investments measured at fair value on a recurring basis by level within the hierarchy as of December 31, 2023:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported at Net Asset Value
Investments, at fair value and NAV:					
Money market funds	\$ 1,678,943	\$ 1,678,943	\$ --	\$ --	\$ --
Equity investment funds:					
Mutual funds – equity	68,171,078	68,171,078	--	--	--
U.S. common stock	3,468	3,468	--	--	--
Subtotal – Equity Investment Funds	68,174,546	68,174,546	--	--	--
Fixed income funds:					
U.S. Treasury bills	14,974,398	14,974,398	--	--	--
U.S. Treasury and federal agencies	3,865,050	--	3,865,050	--	--
Corporate bonds	12,319,430	--	12,319,430	--	--
Foreign bonds	2,074,711	--	2,074,711	--	--
Mutual fund – aggregate bond	280,865	280,865	--	--	--
Municipal bonds	--	--	--	--	--
Subtotal – Fixed Income Funds	33,514,454	15,255,263	18,259,191	--	--
Alternative funds:					
Private equity funds	80,269,305	--	--	--	80,145,617
Hedge funds	23,011,586	--	--	--	23,011,586
Real estate investment trust	8,159,361	--	--	--	8,159,361
Private debt funds	15,234,405	--	--	--	15,234,405
Subtotal – Alternative Investment Funds	126,674,657	--	--	--	126,674,657
Investments carried at Fair Value and NAV	230,042,600	\$ 85,108,752	\$ 18,259,191	\$ --	\$ 126,674,657
Investments, at cost:					
Cash equivalents	6,965				
Total Investments	\$ 230,049,565				

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Investments measured at fair value on a recurring basis by level within the hierarchy as of December 31, 2022:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Reported at Net Asset Value
Investments, at fair value and NAV:					
Money market funds	\$ 987,879	\$ 987,879	\$ --	\$ --	\$ --
Equity investment funds:					
Mutual funds – equity	66,607,043	66,607,043	--	--	--
U.S. common stock	2,908	2,908	--	--	--
Subtotal – Equity Investment Funds	66,609,951	66,609,951	--	--	--
Fixed income funds:					
U.S. Treasury bills	15,686,339	15,686,339	--	--	--
U.S. Treasury and federal agencies	2,200,359	--	2,200,359	--	--
Corporate bonds	14,403,634	--	14,403,634	--	--
Foreign bonds	1,780,520	--	1,780,520	--	--
Mutual fund – aggregate bond	247,805	247,805	--	--	--
Municipal bonds	139,307	--	139,307	--	--
Subtotal – Fixed Income Funds	34,457,964	15,934,144	18,523,820	--	--
Alternative funds:					
Private equity funds	71,375,341	--	--	--	71,375,341
Hedge funds	21,993,356	--	--	--	21,993,356
Real estate investment trust	10,079,544	--	--	--	10,079,544
Private debt funds	11,832,807	--	--	--	11,832,807
Subtotal – Alternative Investment Funds	115,281,048	--	--	--	115,281,048
Investments carried at Fair Value and NAV	217,336,842	\$ 83,531,974	\$ 18,523,820	\$ --	\$ 115,281,048
Investments, at cost:					
Cash equivalents	365,448				
Total Investments	\$ 217,702,290				

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

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.

Net Asset Value (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 and private debt funds 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.

The following presents further information regarding the composition of the Society's alternative investments as of December 31, 2023 and 2022:

Fund Type	Investment Fund Name	December 31	December 31	December 31	December 31	Redemption Frequency and Notice
		2023 NAV	2022 NAV	2023 Unfunded Commitments	2022 Unfunded Commitments	
Private equity	Commonfund Capital Partners V	\$ 10,630,240	\$ 12,049,470	\$ 1,160,500	\$ 1,650,500	See (a) below
Private equity	Commonfund Natural Resources X	2,062,075	2,093,583	250,000	250,000	See (b) below
Private equity	Commonfund Natural Resources XI	1,894,044	1,939,561	375,000	540,000	See (b) below
Private equity	Commonfund Capital Venture Partners XII	5,464,488	5,396,533	192,500	350,000	See (c) below
Private equity	Commonfund Capital Venture Partners XIII	2,470,704	2,194,263	235,000	400,000	See (c) below
Private equity	Commonfund Capital International Partners IX	1,792,331	1,450,809	162,750	348,750	See (d) below
Private equity	Adams Street 2015 Global Fund	4,891,129	5,294,794	442,091	498,575	See (e) below
Private equity	Adams Street 2016 Global Fund	4,778,723	4,883,747	447,322	707,682	See (e) below
Private equity	Adams Street 2017 Global Fund	5,101,290	5,200,084	587,053	805,328	See (e) below
Private equity	Adams Street 2018 Global Fund	3,985,574	3,764,091	802,200	917,700	See (e) below
Private equity	Adams Street 2019 Global Fund	2,100,957	1,748,937	336,943	648,943	See (e) below
Private equity	Adams Street 2020 Global Fund	1,596,778	1,223,973	533,186	858,786	See (e) below
Private equity	Adams Street 2022 Global Fund, LP	1,199,955	240,375	3,959,750	4,750,000	See (e) below
Private equity	Adams Street Co-Investment Fund IV	3,640,396	3,478,388	476,926	397,866	See (e) below

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Fund Type	Investment Fund Name	December 31 2023 NAV	December 31 2022 NAV	December 31 2023 Unfunded Commitments	December 31 2022 Unfunded Commitments	Redemption Frequency and Notice
<i>(continued)</i>						
Private equity	Adams Street Co-Investment Fund V	\$ 1,234,959	\$ 177,978	\$ 2,025,000	\$ 2,850,000	See (e) below
Private equity	Legacy Ventures Fund X	1,684,716	1,272,277	1,200,000	1,620,000	See (f) below
Private equity	Legacy Ventures Fund XI	348,197	174,877	4,600,000	4,800,000	See (f) below
Private equity	Arrowstreet Global Equity Fund	18,575,373	12,451,938	--	--	See (g) below
Private equity	Aleutian Fund	6,817,376	6,339,663	--	--	See (h) below
Real estate	UBS Trumbull Property Fund	8,159,361	10,079,544	--	--	See (i) below
Real estate	UBS Trumbull Property Income Fund	--	--	--	--	See (i) below
Hedge	Acadian Emerging Markets Equity Fund	5,994,754	4,868,169	--	--	See (j) below
Hedge	Caxton Global Investment Fund	5,960,095	6,264,525	--	--	See (k) below
Hedge	Renaissance	5,002,700	5,499,349	--	--	See (l) below
Hedge	Voya Mortgage Investment Fund	6,054,037	5,361,313	--	--	See (m) below
Private debt	Benefits Street Partners Debt Fund IV	3,816,620	3,997,115	1,101,700	175,780	See (n) below
Private debt	Varde Debt Fund XIII	2,927,740	3,294,505	120,000	120,000	See (o) below
Private debt	MGG SF Evergreen Fund (CAYMAN) LP	6,189,130	4,541,187	138,719	1,611,116	See (p) below
Private debt	KLCP Offshore Fund III	1,694,935	--	1,481,390	--	See (q) below
Private debt	Ares Capital Europe VI (D) Levered Feeder LP	362,138	--	2,665,972	--	See (r) below
Private debt	Ares Pathfinder Fund II Offshore	243,842	--	2,770,130	--	See (s) below
		<u>\$126,674,657</u>	<u>\$115,281,048</u>	<u>\$ 26,064,132</u>	<u>\$ 24,301,026</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.
- (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-stage 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.

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

- (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 small/middle market and selectively on large leverage buyouts 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) ***Arrowstreet Global Equity ACWI Trust Fund***: Arrowstreet offers exposure to a diversified portfolio of global equities, from both developed and emerging markets. In identifying opportunities, Arrowstreet combines the investment intuition of their experienced team, with rigorous quantitative research and sophisticated forecasting models. The investment team seeks to outperform the benchmark by identifying information that, while relevant to a company's share price, is less obvious to the market. Redemptions and contributions are allowed semi-monthly.
- (h) ***Aleutian Fund***: The Alyeska Aleutian fund is an equity focused long/short hedge fund that takes a market neutral approach to drive uncorrelated returns and mitigate systematic risk embedded in equity securities. Alyeska's risk management philosophy is to create a liquid, modestly levered and risk-controlled portfolio. It strives to ensure negligible correlation to broad market indices investment styles and most other hedge fund strategies. Alyeska provides monthly liquidity to their investors with 90 days' notice.

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

- (i) ***UBS Trumbull Property Fund on 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.
- (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 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 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 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.

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

- (o) ***Varde Fund XIII:*** The Varde Fund XII 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.
- (p) ***MGG SF Evergreen Fund (CAYMAN) LP:*** MGG SF Evergreen Fund (Cayman) LP 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 contributions 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) ***KLCP Offshore Fund III:*** KLCP Offshore Fund III is an opportunistic credit manager designed to invest across the capital structure but primarily in first lien securities. The strategy has the flexibility to invest in both public and private markets, performed and distressed in US and Europe. The Fund takes a partnership approach with borrowers; does Not structure loans that set a company up to fail. Companies in transition are sensitive to interest rates, therefore, fixed rate loans are often more appropriate than floating rate loans for borrowers.
- (r) ***Ares Capital Europe VI (D) Levered Feeder Fund:*** Ares Capital Europe VI Levered Feeder Fund is seeking to make 80 to 100 direct lending investments in sponsor-backed, middle-market European companies. Target companies will generate between €10 million and €300 million in EBITDA and be diversified across industries and European geographies. Fund VI is expected to be invested in primarily first lien debt with opportunistic allocations to second lien, subordinated debt and equity co-investments. The Fund will seek to invest an average of €150 million per deal.
- (s) ***Ares Pathfinder Fund II Offshore:*** Ares Pathfinder Fund II is a vehicle aiming to generate current income and realize long term capital appreciation through a flexible capital strategy in asset-focused investment opportunities that fall outside of traditional, well-defined markets. The types of assets in the Fund will include loans/leases, receivables, and

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

royalties/fees. The format of investments will be lending against assets, acquiring asset pools, or buying alternative credit securities. Ares anticipates the Fund to target approximately 50% 1st lien senior secured, 30% 2nd lien/last out, 10% preferred equity, and 10% asset acquisitions (equity).

NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

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 6 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. 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, 2023 and 2022 (see Note 2 regarding investments).

Financial assets available to fund general expenditures within one year were as follows for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,378,013	\$ 1,414,722
Investments	230,049,565	217,702,290
Emergency assistance and education loan receivable, net	3,128,035	3,445,767
Promises to give	<u>91,936</u>	<u>36,513</u>
Total financial assets	<u>234,647,549</u>	<u>222,599,292</u>
Less:		
Investments with donor restrictions	(2,181,776)	(2,091,204)
Investments with no liquidity provision	(57,806,319)	(55,699,816)
Conditional grants subject to donor recall	<u>--</u>	<u>(216,250)</u>
Financial Assets Available to Meet Cash Needs For General Expenditure Within One Year	<u>\$174,659,454</u>	<u>\$164,592,022</u>

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Furniture and equipment	\$ 319,691	\$ 296,732
Capitalized software	1,593,159	1,593,158
Computer equipment	<u>185,851</u>	<u>183,289</u>
	2,098,701	2,073,179
Less: Accumulated depreciation and amortization	<u>(2,045,415)</u>	<u>(2,019,249)</u>
Property and Equipment, Net	<u>\$ 53,286</u>	<u>\$ 53,930</u>

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Endowment fund	\$ 2,131,776	\$ 2,091,204
Purpose restricted: Air Force Families	<u>50,000</u>	<u>--</u>
Total	<u>\$ 2,181,776</u>	<u>\$ 2,091,204</u>

Net assets released from restrictions consisted of the following during the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Endowment fund	\$ 91,825	\$ 86,289
Time restricted	<u>--</u>	<u>180,819</u>
Total	<u>\$ 91,825</u>	<u>\$ 267,108</u>

NOTE 6 – 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 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

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 6 – 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

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 6 – ENDOWMENT (CONTINUED)

Changes in endowment net assets for the years ended December 31, 2023 and 2022:

	With Donor Restrictions		
	Subject to Expenditure for Specified Purpose	Endowment Given in Perpetuity	Total
Balances at January 1, 2022	\$ 302,809	\$ 2,083,804	\$ 2,386,613
Contributions	--	7,400	7,400
Investment return, net	(216,520)	--	(216,520)
Appropriation of endowment assets for expenditure	(86,289)	--	(86,289)
Balances at December 31, 2022	--	2,091,204	2,091,204
Contributions	--	17,000	17,000
Investment return, net	115,397	--	115,397
Appropriation of endowment assets for expenditure	(91,825)	--	(91,825)
Balances at December 31, 2023	\$ 23,572	\$ 2,108,204	\$ 2,131,776

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 GAAP, deficiencies may result from unfavorable market fluctuations. Should the need to make expenditures from funds with deficiencies arise, the Society intends to comply with the appropriate legal requirements pertaining to such matters. Funds with deficiencies totaled \$0 and \$78,425 as of December 31, 2023 and 2022, respectively and were a result of investment losses during the year ended December 31, 2023.

RETURN OBJECTIVES AND RISK PARAMETERS

The Society has adopted investment and spending policies for its 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

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 6 – ENDOWMENT (CONTINUED)

RETURN OBJECTIVES AND RISK PARAMETERS (CONTINUED)

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, 2023, 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 approval 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 7 – EDUCATION PROGRAM EXPENSES

Educational program expenses consisted of the following for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
General H.H. Arnold Education Grants	\$ 2,486,033	\$ 2,330,422
Merit-based Scholarships	105,000	80,000
Educational Program Administration	<u>569,075</u>	<u>713,395</u>
	<u>\$ 3,160,108</u>	<u>\$ 3,123,817</u>

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 8 – 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 2023 and 2022. During the 2023 and 2022, the Society contributed \$292,656 and \$251,659, 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 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 maximum of \$50,000. The liability for post-retirement life insurance was \$258,753 and \$271,958 for the years ended December 31, 2023 and 2022, respectively.

NOTE 9 – 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, 2023 and 2022, was \$0.

NOTE 10 – INCOME TAXES

The Society is exempt from payment of income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code, and is classified as other than a private foundation. The Society believes that it has appropriate support for income tax positions taken. The Society has adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Society evaluated its uncertainty in income taxes for the years ended December 31, 2023 and 2022, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status; and there are currently no audits pending or in progress. It is the Society's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. As of December 31, 2023 and 2022, the Society had no accruals for interest and/or penalties.

AIR FORCE AID SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 11 – SUBSEQUENT EVENTS

The Society has evaluated subsequent events for recognition or disclosure through October 28, 2024, the date the financial statements were available to be issued.