

**Audited Financial Statements
and Other Financial Information**

AIR FORCE AID SOCIETY, INC.

December 31, 2009

Air Force Aid Society, Inc.

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T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report on the Financial Statements

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

We have audited the accompanying statements of financial position of the Air Force Aid Society, Inc. (the Society) as of December 31, 2009 and 2008 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Air Force Aid Society, Inc. as of December 31, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Washington, DC
March 17, 2010

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Air Force Aid Society, Inc.

Statements of Financial Position

December 31,	2009	2008
Assets		
Cash and cash equivalents - Note B	\$ 1,537,870	\$ 1,582,720
Investments - Notes B and C	139,916,165	122,451,321
Emergency assistance loans receivable, net	7,546,191	8,418,079
Allotments receivable	54,894	55,917
Pledges receivable	34,656	150,473
Air Force assistance fund receivable	4,681	5,766
Other assets	62,474	48,319
Property and equipment, net - Note D	365,432	805,260
Total assets	\$ 149,522,363	\$ 133,517,855
Liabilities and net assets		
Liabilities		
Accounts payable and accrued expenses	\$ 171,476	\$ 144,646
Other liabilities - Note E	1,192,303	1,134,759
Total liabilities	1,363,779	1,279,405
Net assets		
Unrestricted - Note I	146,488,797	130,432,658
Temporarily restricted - Note H	44,983	255,988
Permanently restricted - Notes H and I	1,624,804	1,549,804
Total net assets	148,158,584	132,238,450
Commitments and contingencies - Note J	-	-
Total liabilities and net assets	\$ 149,522,363	\$ 133,517,855

See notes to the financial statements.

Air Force Aid Society, Inc.

Statements of Activities

Year Ended December 31,	2009	2008
Unrestricted activities		
Operating revenues		
Contributions:		
Air Force Assistance Fund	\$ 4,659,631	\$ 4,694,176
Other donations - Note J	1,482,489	2,588,514
Total contributions	6,142,120	7,282,690
Investment return designated for current operations - Note C	8,075,700	9,908,700
Collections on loans previously written off	14,581	10,071
Miscellaneous income	6,664	184,338
Net assets released from restriction	250,661	159,193
Total operating revenues	14,489,726	17,544,992
Expenses - Notes G and J		
Program services		
Emergency assistance	2,071,054	2,332,480
Educational assistance - Note F	7,704,992	8,481,492
Community enhancement	2,530,497	2,925,612
Total program services expenses	12,306,543	13,739,584
Supporting services		
Management and general	1,233,149	1,188,903
Fundraising	485,590	377,769
Total supporting services	1,718,739	1,566,672
Total operating expenses	14,025,282	15,306,256
Change in unrestricted net assets from operations	464,444	2,238,736
Nonoperating activities		
Post-retirement benefits charges other than net periodic cost - Note E	(23,873)	(12,133)
Program System write-down - Note D	(472,304)	-
Investment return in excess (deficit) of amounts designated for current operations - Note C	16,087,872	(50,707,391)
Transfer to permanently restricted net assets	-	(3,000)
Change in unrestricted net assets	16,056,139	(48,483,788)
Temporarily restricted activities		
Contributions	39,656	173,473
Net assets released from restriction	(250,661)	(159,193)
Change in temporarily restricted net assets	(211,005)	14,280
Permanently restricted activities		
Contributions	75,000	24,000
Transfer from unrestricted net assets	-	3,000
Change in permanently restricted net assets	75,000	27,000
Change in net assets	15,920,134	(48,442,508)
Net assets, beginning of year	132,238,450	180,680,958
Net assets, end of year	\$ 148,158,584	\$ 132,238,450

See notes to the financial statements.

Air Force Aid Society, Inc.

Statements of Cash Flows

<i>Year Ended December 31,</i>	2009	2008
Cash flows from operating activities		
Change in net assets	\$ 15,920,134	\$ (48,442,508)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	75,082	85,106
Software write-off	472,304	-
Bad debt expense	16,832	186,136
Net realized and unrealized (gains) losses on investments	(20,115,574)	45,805,063
Donated property and equipment	-	(29,479)
Changes in assets and liabilities:		
Emergency loans receivable	855,056	(2,738,519)
Allotments receivable	1,023	(19,404)
Pledges receivable	115,817	(101,812)
Air Force assistance fund receivable	1,085	1,450
Other assets	(14,155)	14,790
Investment income receivable	138,670	296,986
Accounts payable	26,830	(65,949)
Other liabilities	57,544	144
Total adjustments	(18,369,486)	43,434,512
Net cash used in operating activities	(2,449,352)	(5,007,996)
Cash flows from investing activities		
Purchases of investments	(141,120,818)	(172,063,174)
Proceeds from sales and maturities of investments	143,632,878	177,387,597
Purchases of property and equipment	(107,558)	(371,095)
Net cash provided by investing activities	2,404,502	4,953,328
Net decrease in cash and cash equivalents	(44,850)	(54,668)
Cash and cash equivalents, beginning of year	1,582,720	1,637,388
Cash and cash equivalents, end of year	\$ 1,537,870	\$ 1,582,720

See notes to the financial statements.

Air Force Aid Society, Inc.

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Income taxes: The Society has been recognized by the Internal Revenue Service as a not-for-profit organization exempt from federal income taxes on income other than unrelated business income under Section 501(c)(3) of the Internal Revenue Code. Management did not identify any uncertain tax positions. The Society believes it is no longer subject to U.S. federal, state, and local income tax examinations by taxing authorities for years before 2006.

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

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

Cash and cash equivalents: Cash on-hand, deposits in banks, and short-term highly liquid debt instruments with original maturities of three months or less are considered to be cash and cash equivalents. Money market investments managed at the discretion of the investment manager are considered to be investments.

Emergency assistance loans receivable: Emergency assistance loans receivable are reviewed for potential write off when the loan is 90 to 120 days past due. The Society wrote off \$119,494 and \$107,002 of loans receivable in 2009 and 2008, respectively. The allowance for doubtful accounts amounts to \$150,641 and \$253,636 for the years ended December 31, 2009 and 2008, respectively.

Allotments receivable: Allotments receivable consist of amounts collected by the Air Force for loan repayments on behalf of the Society but have not been remitted to the Society at year-end.

Investments: Investments are carried at fair value, which is determined using quoted market prices. Realized gains or losses are determined using the average cost method for equity securities and the amortized cost method for debt securities and are reported in the statements of activities.

Property and equipment: Purchases of property in excess of \$1,000 are capitalized. Depreciation of property is provided on the straight-line basis over the estimated service lives of the assets, which range from three to eight years. Included in property and equipment is capitalized software. Software is amortized over the estimated service life of the software, which is three years. Donated property is recorded at its fair value at the date of donation. Leasehold improvements are recorded at cost and are amortized over the remaining life of the lease, which is currently scheduled to end on August 31, 2013.

Air Force Aid Society, Inc.

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

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

When donor restrictions are met by actions of the Society and/or the passage of time, related net assets are reclassified to unrestricted and reported in the statements of activities as net assets released from restrictions.

Contributions with donor-imposed restrictions that are met in the same year as received are reported as unrestricted revenues.

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

Contributed services: Services provided by the USAF Airman and Family Readiness Center staff are not recorded in the accompanying statements of activities since they do not require specialized skills as defined by U.S. generally accepted accounting principles. As a result of the Defense Authorization Bill, the Department of the Air Force was authorized to pay for certain expenses for the Society. This included \$243,426 and \$244,251 in rent-related costs for 2009 and 2008, respectively. It also included the additional donation of in-kind computer equipment valued at \$35,979 in 2008. The Society depreciates the donated equipment it receives, expensing \$9,493 and \$16,158 in 2009 and 2008, respectively. A total of \$243,426 and \$307,819 of in-kind donations were received in 2009 and 2008, respectively and are recorded as other donations in the statements of activities.

Air Force Aid Society, Inc.

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

The Society follows a total return spending guideline that is based on a three-year moving average of the investment portfolio's mid-year market value. The long-term target for the spending guideline is set by the Finance Committee and for 2009 and 2008 was 4.8% and 5.8%, respectively. The Finance Committee reviews the distribution rate and dollar amount annually.

Functional expenses: Expenses of the Society are reported on a functional basis, dividing costs between program services and support services. The three functional departments under program services are: emergency assistance, education assistance, and community enhancement programs. The two departments under support services are: management and general support and fundraising. The Society uses a head count allocation system to spread certain operational expenditures, including staffing costs, across the five functional units of the organization.

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

Emergency Assistance – This program provides interest-free loans and grants to Air Force members, retirees, and widows based on the individual situation. These loans and grants are provided to meet immediate needs in an emergency situation as a step toward a lasting solution to a problem. The Society started a new Falcon Loan program in March 2008 to make emergency assistance funds more easily accessible to Air Force members in need by streamlining the application process. The Falcon loan program provides up to \$500 loans to active duty Air Force members to be used for emergency financial needs.

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

Spouse Tuition Assistance Program (STAP) – This community-oriented program provides tuition assistance grants to spouses that accompany active duty members on their overseas assignments. STAP motivates spouses to accompany members in overseas locations where they will have the opportunity to take on-base classes that may enhance their potential for employment upon returning to the United States. STAP is also a helpful morale-building tool for commanders who want spouses to feel active and engaged in base activities and have forums where spouses can interact.

General H.H. Arnold Education Grant Program – This program provides need-based grants to sons, daughters, and spouses of Air Force members that are enrolled full-time in undergraduate programs. To ensure an unbiased selection, the Society contracts with ACT Inc. for determination of financial need and disbursement services.

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

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

Fundraising – Fundraising activities include providing support materials for the AFAF Campaign and publicizing and conducting other fundraising activities that may be involved with soliciting contributions from individuals, corporations, and others. These costs also include the costs of the Society's biggest fundraising event, the US Air Force Charity Ball.

Subsequent events: Subsequent events have been evaluated through March 17, 2010.

Air Force Aid Society, Inc.

Notes to the Financial Statements

B. CONCENTRATIONS

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

Market value risk: The Society also invests funds in a professionally managed portfolio that contains various securities detailed in Note C. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Given the current turmoil in world financial markets, the Society's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

C. INVESTMENTS

Accounting standards establish a framework for measuring fair value and expand disclosures about fair value measurements. This standard uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

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

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

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

Investments are recorded at fair value and consist of the following at December 31,:

<u>2009</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Equity investment fund</u>				
Money markets	\$ 58,660	\$ 58,660	\$ -	\$ -
Common stock	88,814,111	88,814,111		
<u>Fixed income fund</u>				
Money markets	388,403	388,403		
Corporate bonds and notes	15,896,783		15,896,783	
U.S. Treasury and federal agencies	23,935,174		23,935,174	
Aggregate bond index fund	10,438,092		10,438,092	
Investment income receivable	384,942	384,942		
	\$139,916,165	\$ 89,646,116	\$50,270,049	\$ -

Air Force Aid Society, Inc.

Notes to the Financial Statements

C. INVESTMENTS – CONTINUED

2008	Total	Level 1	Level 2	Level 3
<u>Equity investment fund</u>				
Money markets	\$ 960,629	\$ 960,629	\$ -	\$ -
Common stock	66,048,890	66,048,890		
 <u>Fixed income fund</u>				
Money markets	209,300	209,300		
Corporate bonds and notes	17,949,487		17,949,487	
U.S. Treasury and federal agencies	26,353,022		26,353,022	
Aggregate bond index fund	10,406,385		10,406,385	
Investment income receivable	523,608	523,608		
	\$122,451,321	\$ 67,742,427	\$ 54,708,894	\$ -

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

	2009	2008
Interest	\$ 2,127,358	\$ 2,534,002
Net realized losses on investments	(11,179,382)	(22,967,423)
Net unrealized gains (losses) on investments	31,294,956	(22,837,641)
Dividends	2,076,978	2,828,244
Investment supervision fee	(156,338)	(355,873)
Total net investment income (loss)	<u>\$ 24,163,572</u>	<u>\$ (40,798,691)</u>
Investment return designated for current operations	\$ 8,075,700	\$ 9,908,700
Investment return in excess (deficit) of amounts designated for current operations	16,087,872	(50,707,391)
Total net investment income	<u>\$ 24,163,572</u>	<u>\$ (40,798,691)</u>

D. PROPERTY AND EQUIPMENT

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

	2009	2008
Furniture and equipment	\$ 370,767	\$ 368,374
Capitalized software	574,905	972,880
Computer equipment	70,704	49,634
Leasehold improvements	219,921	212,040
	<u>1,236,297</u>	<u>1,602,928</u>
Less accumulated depreciation and amortization	(870,865)	(797,668)
	<u>\$ 365,432</u>	<u>\$ 805,260</u>

Air Force Aid Society, Inc.

Notes to the Financial Statements

E. POSTRETIREMENT BENEFITS

The Society provides life insurance benefits to retired employees. The Society accounts for these benefits in accordance with the provisions of the accounting standards topic regarding postretirement benefits other than pensions, which requires that the expected cost of these benefits be recognized during the years in which employees render service. The unfunded status of this post-retirement plan is included as a liability in the Statements of Financial Position. The measurement date for the valuation is December 31. The plan is not funded and therefore has no assets.

The net postretirement benefit expense recognized for the years ended December 31, 2009 and 2008 included the following components:

	2009	2008
Service cost for benefits earned during the year	\$ 9,566	\$ 9,950
Interest cost on accumulated postretirement benefit obligation	18,197	16,580
Total postretirement benefit expense	27,763	26,530
Change in actuarial assumptions	-	(10,113)
Actuarial loss	23,873	22,246
Contributions paid on behalf of current retired participants	(25,932)	(23,337)
Change in accrued postretirement benefit cost	\$ 25,704	\$ 15,326

The following table shows the plan's obligation as well as the liability recognized in the Society's statements of financial position at December 31,:

	2009	2008
Retirees	\$ 190,456	\$ 178,025
Other active participants	128,972	115,699
Accrued postretirement benefit cost	\$ 319,428	\$ 293,724
Weighted average assumed discount rate	6.0%	6.0%
Rate of salary increase assumed	2.5%	2.5%

The expected future benefit payments are as follows:

Year Ending December 31,	Amount
2010	\$ 14,900
2011	15,600
2012	17,900
2013	18,600
2014	19,600
2015-2019	110,000
	\$ 196,600

Air Force Aid Society, Inc.

Notes to the Financial Statements

F. EDUCATIONAL GRANTS

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

	2009	2008
General H.H. Arnold Education Grant Program	\$ 5,692,139	\$ 6,656,935
Spouse Tuition Assistance Program	<u>1,211,167</u>	<u>1,052,549</u>
	<u>\$ 6,903,306</u>	<u>\$ 7,709,484</u>

G. RETIREMENT PLAN

The Society has a defined contribution pension plan in which all employees participate. Monthly employer contributions were equal to 9% of participants' gross compensation as defined in the plan for both 2009 and 2008. During 2009 and 2008, the Society contributed \$179,578 and \$179,854, 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.

H. NET ASSETS

Temporarily restricted: The December 31, 2009 balance of temporarily restricted net assets is \$44,983, which is comprised of \$34,656 that is time-restricted and \$10,327 which is restricted for use on specific Society programs. The December 31, 2008 balance of temporarily restricted net assets is \$255,988, which is comprised of \$146,473 that is time-restricted and \$109,515 which is restricted for use on specific Society programs.

Permanently restricted: Permanently restricted net assets at December 31, 2009 and 2008 are held to provide earnings to pay scholarships under the General H.H. Arnold Education Grant Program.

I. ENDOWMENT

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

Air Force Aid Society, Inc.

Notes to the Financial Statements

I. 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Changes in endowment net assets for the year ended December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balances at January 1, 2009	\$ -	\$ -	\$ 1,549,804	1,549,804
Investment return:				\$
Investment income		48,822		48,822
Investment fees		(1,815)		(1,815)
Net appreciation (realized and unrealized)		233,596		233,596
Total investment return		280,603		280,603
Contributions			75,000	75,000
Appropriation of endowment assets for expenditure		(280,603)		(280,603)
Balances at December 31, 2009	\$ -	\$ -	\$ 1,624,804	1,624,804

Air Force Aid Society, Inc.

Notes to the Financial Statements

I. ENDOWMENT – CONTINUED

Changes in endowment net assets for the year ended December 31, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances at January 1, 2008	\$ -	\$ -	\$1,522,804	\$1,552,804
Investment return:				
Investment income		67,727		67,727
Investment fees		(4,504)		(4,504)
Net depreciation (realized and unrealized)		(579,732)		(579,732)
Total investment return		(516,509)		(516,509)
Contributions			24,000	24,000
Society match			3,000	3,000
Transfer from reserves to preserve donor restricted fund value		516,509		516,509
Balances at December 31, 2008	\$ -	\$ -	\$1,549,804	\$1,549,804

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that current law requires the Society to retain for a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. Such deficiencies may result from unfavorable market fluctuations. There were no fund deficiencies as of December 31, 2009. There were deficiencies of \$516,509 as of December 31, 2008.

Return objectives and risk parameters

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

Notes to the Financial Statements

I. ENDOWMENT – CONTINUED

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 to achieve its long-term return objectives within prudent risk constraints. The permanently restricted Education Grant endowment funds are a subset of the total investment fund held by the Society. The total reserve fund balances were \$139,916,165 and \$122,451,321, respectively, for the years ended December 31, 2009 and 2008.

Spending policy and how the investment objectives relate to spending policy

The Society has a policy of maintaining the full historical value of the permanently restricted endowments. The full investment portfolio is invested using an asset mix of 65% equity and 35% fixed income securities, per the Board approved investment policy, in an effort to generate returns to cover the long-term spending target of 5.8%. Included in this 5.8%, the total return generated by the permanently restricted funds is used each year to fund the education grants designated by donor restriction. The distribution rate and dollar amount of the Society's spending plan is reviewed annually by the Finance Committee as part of the normal budget process.

J. OFFICE LEASE COMMITMENT

The Society has a non-cancelable operating lease to rent office space, which expires in August 2013. The Society's 2009 and 2008 rental expense was \$254,748 and \$248,756, respectively. In accordance with Section 1066 (Provision of Space and Services to Military Welfare Societies) of the 2003 Defense Authorization Bill, the Air Force may pay the Society's lease expenses effective May 1, 2003. The Air Force paid the Society's lease obligation in both 2009 and 2008, therefore, the Society records this rent payment as contribution revenue – other donations and rent expense in the accompanying statements of activities.

The future minimum rental payments are as follows:

Year Ending December 31,	Amount
2010	\$ 247,850
2011	254,665
2012	261,669
2013	177,615
	941,799
	\$ 941,799

T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report on the Other Financial Information

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

Our report on our audit of the basic financial statements of the Air Force Aid Society, Inc. for December 31, 2009 appears on page one. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages fourteen and fifteen is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Washington, DC
March 17, 2010

THE SOUTHERN BUILDING

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805 15TH STREET, NW

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9TH FLOOR

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WASHINGTON, DC

20005

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TELEPHONE

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Air Force Aid Society, Inc.

Supplemental Schedule of Functional Expenses Year Ended December 31, 2009

	Program Services				Supporting Services			Total
	Emergency Assistance	Educational Assistance	Community Enhancement	Total program services expenses	Management and general	Fundraising	Total supporting services expenses	
Grants and conversions	\$ 683,132	\$ 6,903,306	\$ 2,183,824	\$ 9,770,262	\$ -	\$ -	\$ -	\$ 9,770,262
Salary and benefits	1,082,662	409,656	263,350	1,755,668	965,617	204,828	1,170,445	2,926,113
Allowance for bad debts	16,832			16,832			-	16,832
ACT fees		298,904		298,904			-	298,904
Occupancy	94,257	35,665	22,927	152,849	84,067	17,832	101,899	254,748
Fundraising				-		234,200	234,200	234,200
Professional services	6,996	377	242	7,615	888	188	1,076	8,691
FamNet and after hours phone	16,889			16,889			-	16,889
Miscellaneous	19,474	6,370	4,095	29,939	15,016	3,185	18,201	48,140
Depreciation and amortization	19,731	7,466	4,799	31,996	17,598	3,733	21,331	53,327
Printing and publications	19,558	4,364	2,805	26,727	10,286	2,182	12,468	39,195
Accounting fees				-	39,431		39,431	39,431
Maintenance agreements and contracts	30,101	11,390	7,322	48,813	26,847	5,695	32,542	81,355
Systems upgrade	30,618	11,585	7,448	49,651	27,308	5,793	33,101	82,752
Insurance	12,683	4,799	3,085	20,567	11,312	2,399	13,711	34,278
Supplies	11,545	4,368	2,808	18,721	10,297	2,184	12,481	31,202
Postage	8,687	3,287	2,113	14,087	7,748	1,644	9,392	23,479
FSC volunteer training and incidentals	8,759		23,458	32,217			-	32,217
AFAS Board & Committee expenses				-	8,591		8,591	8,591
Travel	9,130	3,455	2,221	14,806	8,143	1,727	9,870	24,676
Total expenses by program	\$ 2,071,054	\$ 7,704,992	\$ 2,530,497	\$ 12,306,543	\$ 1,233,149	\$ 485,590	\$ 1,718,739	\$ 14,025,282
Percentage of total expenses	15%	55%	18%	88%	9%	3%	12%	100%

The above Emergency Assistance "Grants and conversions" line reflects only \$683,132 in grants and none of the \$11.5 million in interest free loans given during 2009, which per accounting rules remain a statement of financial position asset until paid off. In 2009, the Air Force Aid Society was able to assist on 17,319 emergency assistance cases through a combination of grants and/or interest free loans.

Air Force Aid Society, Inc.

Supplemental Schedule of Functional Expenses Year Ended December 31, 2008

	Program Services				Supporting Services			Total
	Emergency Assistance	Educational Assistance	Community Enhancement	Total program services expenses	Management and general	Fundraising	Total supporting services expenses	
Grants and conversions	\$ 809,155	\$ 7,709,484	\$ 2,521,400	\$ 11,040,039	\$ -	\$ -	\$ -	\$ 11,040,039
Salary and benefits	1,040,159	404,507	317,826	1,762,492	953,479	173,360	1,126,839	2,889,331
Allowance for bad debts	186,136			186,136			-	186,136
ACT fees		287,410		287,410			-	287,410
Occupancy	89,552	34,826	27,363	151,741	82,089	14,926	97,015	248,756
Fundraising				-		170,084	170,084	170,084
Professional services	6,721	280	220	7,221	661	120	781	8,002
FamNet and after hours phone	28,955			28,955			-	28,955
Miscellaneous	19,171	6,248	4,910	30,329	14,725	2,678	17,403	47,732
Depreciation and amortization	40,160	9,088	7,140	56,388	21,420	3,895	25,315	81,703
Printing and publications	26,580	2,740	2,153	31,473	6,459	1,174	7,633	39,106
Accounting fees				-	38,185		38,185	38,185
Maintenance agreements and contracts	18,656	7,255	5,700	31,611	17,102	3,109	20,211	51,822
Systems upgrade	6,525	2,538	1,994	11,057	5,981	1,087	7,068	18,125
Insurance	15,160	5,895	4,632	25,687	13,896	2,527	16,423	42,110
Supplies	14,360	5,585	4,388	24,333	13,164	2,393	15,557	39,890
Postage	17,906	4,050	3,182	25,138	9,547	1,736	11,283	36,421
FSC volunteer training and incidentals	9,205		23,458	32,663			-	32,663
AFAS Board & Committee expenses				-	8,456		8,456	8,456
Travel	4,079	1,586	1,246	6,911	3,739	680	4,419	11,330
Total expenses by program	\$ 2,332,480	\$ 8,481,492	\$ 2,925,612	\$ 13,739,584	\$ 1,188,903	\$ 377,769	\$ 1,566,672	\$ 15,306,256
Percentage of total expenses	15%	56%	19%	90%	8%	2%	10%	100%

The above Emergency Assistance "Grants and conversions" line reflects only \$809,155 in grants and none of the \$12.9 million in interest free loans given during 2008, which per accounting rules remain a statement of financial position asset until paid off. In 2008, the Air Force Aid Society was able to assist on 19,018 emergency assistance cases through a combination of grants and/or interest free loans.