

**Audited Financial Statements  
and Supplementary Information**

**AIR FORCE AID SOCIETY, INC.**

**December 31, 2016**

# Air Force Aid Society, Inc.

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# Independent Auditor's Report on the Financial Statements

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

We have audited the accompanying financial statements of the Air Force Aid Society, Inc. (the Society), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

## **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Society's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Air Force Aid Society, Inc. as of December 31, 2016 and 2015, 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.

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# Air Force Aid Society, Inc.

## Statements of Financial Position

<i>December 31,</i>	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 2,530,149	\$ 2,357,588
Investments	181,424,438	175,829,578
Emergency assistance and education loans receivable, net	3,746,272	4,046,510
Pledges receivable	146,458	84,008
Other assets	226,727	239,058
Property and equipment, net	794,612	696,032
<b>Total assets</b>	<b>\$ 188,868,656</b>	<b>\$ 183,252,774</b>
 <b>Liabilities and net assets</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 307,016	\$ 328,629
Other liabilities	1,378,830	1,362,840
Total liabilities	1,685,846	1,691,469
Net assets		
Unrestricted	184,791,711	179,658,493
Temporarily restricted	509,295	91,008
Permanently restricted	1,881,804	1,811,804
Total net assets	187,182,810	181,561,305
Commitments and contingencies	-	-
<b>Total liabilities and net assets</b>	<b>\$ 188,868,656</b>	<b>\$ 183,252,774</b>

See notes to the financial statements.

# Air Force Aid Society, Inc.

## Statements of Activities

<b>Year Ended December 31,</b>	<b>2016</b>	<b>2015</b>
<b>Unrestricted activities</b>		
Operating revenues		
Contributions:		
Air Force Assistance Fund	\$ 3,217,710	\$ 3,930,824
Other donations	1,484,319	1,378,366
Total contributions	4,702,029	5,309,190
Investment return designated for current operations	8,933,400	8,465,000
Other	1,989	22,802
Net assets released from restriction	91,008	55,465
Total operating revenues	13,728,426	13,852,457
Expenses		
Program services		
Educational assistance	6,713,759	6,673,245
Emergency assistance	3,202,137	3,334,447
Community enhancement	1,575,930	1,725,260
Total program services expenses	11,491,826	11,732,952
Supporting services		
Management and general	1,342,861	1,155,972
Fundraising	575,670	629,712
Total supporting services	1,918,531	1,785,684
Total operating expenses	13,410,357	13,518,636
Change in unrestricted net assets from operations	318,069	333,821
Nonoperating activities		
Post-retirement benefits charges other than net periodic cost	(51,250)	2,486
Allowance for doubtful accounts estimate adjustment	17,890	-
Investment return (deficit) in excess of amounts designated for current operations	4,848,509	(8,553,453)
Change in unrestricted net assets	5,133,218	(8,217,146)
<b>Temporarily restricted activities</b>		
Contributions	509,295	91,008
Net assets released from restriction	(91,008)	(55,465)
Change in temporarily restricted net assets	418,287	35,543
<b>Permanently restricted activities</b>		
Contributions	70,000	-
Change in permanently restricted net assets	70,000	-
<b>Change in net assets</b>	<b>5,621,505</b>	<b>(8,181,603)</b>
Net assets, beginning of year	181,561,305	189,742,908
<b>Net assets, end of year</b>	<b>\$ 187,182,810</b>	<b>\$ 181,561,305</b>

See notes to the financial statements.

# Air Force Aid Society, Inc.

## Statements of Cash Flows

<b>Year Ended December 31,</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 5,621,505	\$ (8,181,603)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Stock gifts	(3,245)	(2,995)
Depreciation and amortization	94,645	90,808
Bad debt expense	5,206	11,438
Net realized and unrealized (gain) loss on investments	(10,280,484)	3,621,096
Donated property and equipment	-	(48,208)
Changes in assets and liabilities:		
Emergency and education loans receivable	295,032	503,131
Pledges receivable	(62,450)	(35,543)
Other assets	12,331	(82,430)
Accounts payable	(21,613)	87,038
Other liabilities	15,990	27,057
Total adjustments	(9,944,588)	4,171,392
Net cash used in operating activities	(4,323,083)	(4,010,211)
<b>Cash flows from investing activities</b>		
Purchases of investments	(55,582,160)	(76,855,477)
Proceeds from sales and maturities of investments	60,271,029	78,925,340
Purchases of property and equipment	(193,225)	(72,141)
Net cash provided by investing activities	4,495,644	1,997,722
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>172,561</b>	<b>(2,012,489)</b>
Cash and cash equivalents, beginning of year	2,357,588	4,370,077
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,530,149</b>	<b>\$ 2,357,588</b>

See 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 is exempt from payment of income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Society believes that it has appropriate support for income tax positions taken.

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

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

Cash and cash equivalents: Cash on-hand, deposits in banks, and short-term highly liquid debt instruments with original maturities of twelve months or less are considered to be cash and cash equivalents as the investments can be sold prior to maturity, although with a penalty. Money market investments managed at the discretion of the investment manager are considered to be investments.

Emergency assistance and education loans receivable: Loans receivable are reviewed for potential write off when the loan is 90 to 120 days past due. The Society wrote off \$8,161 and \$17,175 of loans receivable in 2016 and 2015, respectively. The allowance for doubtful accounts amounted to \$17,889 and \$38,734 for the years ended December 31, 2016 and 2015, respectively. The Society lowered the allowance for doubtful accounts estimate from 1% to 0.5% in 2016 to reflect lower loan write-offs over the past few years.

Investments: Investments consisted of equity and fixed income securities, real estate funds, hedge funds, private equity funds, and money market funds. All the investments, except money market funds, are carried at fair value and are held for long-term purposes to provide continuous funding in support of the Society's mission. The money market funds are carried at cost. Investments in publicly traded securities are reflected in the financial statements at fair value based on quoted market prices. The hedge funds and private equity funds contain commingled trusts, which are not listed on national markets or over-the-counter markets and for which quoted market prices are not readily available. Management estimates of the fair value of these investments in commingled trusts are based on the net asset value, unless additional adjustments are deemed warranted by management. The net asset values are provided by the fund administrator and external investment managers and may include information based on historical cost appraisals, obtainable prices for similar assets, or other estimates.

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

Property and equipment: Purchases of property in excess of \$1,000 are capitalized. Depreciation of property is provided on the straight-line basis over the estimated service lives of the assets, which range from three to eight years. Capitalized software is included in property and equipment and is amortized over the estimated service life of the software, which is three years. Donated property is recorded at its fair value at the date of donation. Leasehold improvements are recorded at cost and are amortized over the remaining life of the lease, which is currently scheduled to end on August 31, 2018.

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 consisted 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.

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

Contributed services and equipment: Services provided by the USAF Airman and Family Readiness Center staff are not recorded in the accompanying statements of activities since they do not require specialized skills as defined by U.S. generally accepted accounting principles. As a result of the 2003 Defense Authorization Bill, the Department of the Air Force was authorized to pay for certain service costs for the Society. During the year ended December 31, 2015, the Air Force donated computer equipment to the Society valued at \$48,208. The Society capitalizes any equipment donated by the Air Force that meets the \$1,000 capitalization threshold, expensing \$16,099 and \$1,681 in related depreciation during the years ended December 31, 2016 and 2015, respectively.

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

The Society follows a total return spending guideline that is based on a 36-month moving average of the investment portfolio's monthly fair value. The long-term target for the spending guideline is set by the Finance Committee and for 2016 and 2015 was 5.0%. 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 Society uses a head count allocation system to spread certain operational expenditures, including staffing costs, across the five functional units of the organization.

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

*Emergency Assistance* – This program provides interest free loans and grants to Air Force members, retirees, and widows based on the individual situation. These loans and grants are provided to meet immediate financial needs in an emergency situation as a step toward a lasting solution to a problem. The Society started a new Falcon Loan program in March 2008 to make emergency assistance funds more easily accessible to Air Force members in need by streamlining the application process. The Falcon loan program provides interest-free loans of up to \$750 to active duty Air Force members to be used for emergency financial needs.

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

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 a third party education program administrator for determination of financial need and disbursement services.

Youth Employment Skills Program - This program is an on-base volunteer program for high school students and is offered at selected Air Force bases. The high school students are provided an opportunity to learn valuable work skills, while "banking" dollar credits toward their post-secondary education/training and creating a positive impact on their base community. The students can earn a maximum education grant of \$1,500 towards their future academic endeavors. The society decided to end the YES program in 2016, but will continue to pay grants for those students that earned grant money through the 2016 program cycle.

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

*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.

Support Services: The Society's operations include the following support 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 AFAP Campaign in addition to publicizing and conducting other fundraising activities that may involve soliciting contributions from individuals, corporations, and others. These costs also include the costs of the Society's biggest fundraising event, the US Air Force Charity Ball, which generated \$585,879 and \$660,090 for the Society during the years ended December 31, 2016 and 2015, respectively.

Subsequent events: Subsequent events have been evaluated through May 30, 2017, which is the date the financial statements were available to be issued.

**B. CONCENTRATIONS**

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

Market value risk: The Society also invests funds in a professionally managed portfolio that contains various securities detailed in Note C. The portfolio includes professionally managed funds that invest in domestic and international equities, fixed income securities, real estate, hedge funds, and private equity which are reported at their estimated fair value as determined by the fund managers. Management believes the fund managers' estimates to be reasonable approximations of the fair values of these investments. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in these risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### C. INVESTMENTS

In accordance with generally accepted accounting principles, the Society uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

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

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

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

In May 2015, the FASB issued Accounting Standards Update No. 2015-07, Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)* (ASU 2015-07). The amendments within ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. ASU 2015-07 is effective for non-public entities for interim and annual reporting periods beginning after December 15, 2016 and should be applied retrospectively. Early application is permitted. The Society has early adopted this accounting pronouncement for the year ended December 31, 2016. Therefore, all alternative investments that are fair valued using the practical expedient as of December 31, 2016 and 2015 are excluded from the fair value hierarchy disclosures and included as a reconciling item.

Investments consisted of the following at December 31, 2016:

	Total	Level 1	Level 2	Level 3	Investments Reported at Net Asset Value
Investments, at fair value					
<u>Equity investment fund</u>					
Common stock index funds	\$ 99,700,274	\$ -	\$ 99,700,274	\$ -	\$ -
<u>Fixed income fund</u>					
U.S. Treasury and federal agencies	19,301,837		19,301,837		
Corporate bonds and notes	15,474,848		15,474,848		
Municipal bond	185,043		185,043		
Aggregate bond index fund	3,418,034		3,418,034		
<u>Alternative investment fund</u>					
Hedge funds	9,471,253				9,471,253
Real estate investment trust	19,022,663			14,852,497	4,170,166
Private equity funds	9,054,711			669,512	8,385,199
	175,628,663	-	138,080,036	15,522,009	22,026,618
Investments, at cost					
Money market funds	5,795,775				
<b>Total Investments</b>	<b>\$ 181,424,438</b>				

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### C. INVESTMENTS - CONTINUED

Investments consisted of the following at December 31, 2015:

	Total	Level 1	Level 2	Level 3	Investments Reported at Net Asset Value
Investments, at fair value					
<u>Equity investment fund</u>					
Common stock index funds	\$ 94,473,279	\$ -	\$ 94,473,279	\$ -	\$ -
<u>Fixed income fund</u>					
U.S. Treasury and federal agencies	21,267,243		21,267,243		
Corporate bonds and notes	17,470,263		17,470,263		
Municipal bond	184,240		184,240		
Aggregate bond index fund	4,344,878		4,344,878		
<u>Alternative investment fund</u>					
Hedge funds	9,715,807				9,715,807
Real estate investment trust	20,685,138			16,460,998	4,224,140
Private equity fund	6,994,939			136,679	6,858,260
	175,135,787	-	137,739,903	16,597,677	20,798,207
Investments, at cost					
Money market funds	693,791				
<b>Total Investments</b>	<b>\$ 175,829,578</b>				

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

	2016	2015
Beginning balance	\$ 16,597,677	\$ 14,741,687
Purchases	923,301	646,168
Sales	(2,546,235)	(22,661)
Realized and unrealized gains	547,266	1,232,483
Ending balance	<b>\$ 15,522,009</b>	<b>\$ 16,597,677</b>

Investments using Level 2 inputs consisted of index funds, corporate bonds and government agency securities. The index funds are priced by determining the net asset value of the fund using outside pricing vendors. The fixed income securities are priced using an outside pricing vendor. In determining the fair value of the investments, Northern Trust uses a market approach and prices assets using multiple prices, types of bid/offer, last traded, settlement, evaluated and the official primary exchange close-time pricing. Management believes Northern Trust's estimate to be a reasonable approximation of the fair value of the investments.

Investments recorded at net asset value consist of hedge funds, real estate investment trusts and private equity funds (other than UBS Trumbull and Adams Street) for which fair value is valued using net asset value per share of the investments, as provided by the fund manager, 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.

Investments using Level 3 inputs consist of UBS Trumbull and Adams Street private equity funds. The fair values of these investments are determined based on the fair values of the underlying investments as determined by the fund managers. Management monitors the reports provided by the fund managers and believes the estimates of fair value to be an approximation of the exit price for these investments.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### C. INVESTMENTS – CONTINUED

Investments recorded at cost include money market funds. Investments at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

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

	<b>2016</b>	<b>2015</b>
Interest	\$ 1,281,724	\$ 1,518,323
Net realized and unrealized gain (loss) on investments	10,280,484	(3,621,096)
Dividends	2,902,122	2,699,898
Investment supervision fee	<u>(682,421)</u>	<u>(685,578)</u>
Total net investment income (loss)	<b><u>\$ 13,781,909</u></b>	<b><u>\$ (88,453)</u></b>
Investment return designated for current operations	\$ 8,933,400	\$ 8,465,000
Investment return (deficit) in excess of amounts designated for current operations	4,848,509	(8,553,453)
Total net investment income (loss)	<b><u>\$ 13,781,909</u></b>	<b><u>\$ (88,453)</u></b>

The following presents further information regarding the composition of the Society's alternative investments at December 31, 2016:

<u>Alternative Investment</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Northern Trust Alpha Strategies Fund	\$ 9,471,253	\$ -	See (a) below	See (a) below
SSgA Tuckerman Global Real Estate	4,170,166		See (b) below	See (b) below
Commonfund Capital Partners V	8,104,536	4,510,000	See (c) below	See (c) below
Commonfund Natural Resources X	280,663	2,275,000	See (d) below	See (d) below
Adams Street 2015 Global Fund	529,076	3,600,000	See (e) below	See (e) below
Adams Street 2016 Global Fund	140,436	3,900,000	See (e) below	See (e) below
UBS Trumbull Property Fund	14,852,497		See (f) below	See (f) below

**(a) Northern Trust Alpha Strategies Fund**

Northern Trust Alpha Strategies Fund is a fund-of-funds that seeks to achieve attractive, risk adjusted returns with low volatility. A notice period of 60 days written notice is required to redeem shares. The fund generally pays 100% of partial redemption 30 days after the redemption date on a quarterly basis and 95% of a full redemption within 30 days after the redemption date with the balance paid after the completion of the Fund's fiscal year audit.

**(b) SSgA Global Real Estate Non-Lending Common Trust Fund**

SSgA Global Real Estate Non-Lending Common Trust Fund is an index fund that invests in securities of real estate investment trust companies. The investment objective of the fund is to seek an investment return that approximates as closely as practicable, before expenses, the performance of its benchmark index over the long term. A notice period of 15 days is required to redeem significant shares; however there are no limits on the frequency of the Society's ability to redeem shares.

**C. INVESTMENTS – CONTINUED**

**(c) Commonfund Capital Partners V**

Commonfund Capital Partners V is a partnership that manages a broadly diversified multi-strategy program that provides access to US private equity, global private equity, and global venture capital investments. The Society is a limited partner in this partnership that strives to provide a solid return of capital. This is an illiquid investment and redemptions are not permitted. Quarterly distributions will be made by the partnership as individual investments reach maturity.

**(d) Commonfund Natural Resources X**

Commonfund Natural Resources X is a partnership that manages 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 this partnership 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 partnership as individual investments reach maturity.

**(e) Adams Street 2015 Global Fund & 2016 Global Fund**

The Adams Street 2015 Global Fund and 2016 Global Fund are partnerships designed to acquire limited partner interests in each of Adams Street 2015 & 2016 US Funds, Adams Street 2015 & 2016 Non-US Funds, and the Adams Street 2015 & 2016 Direct Venture/Growth Funds. The Society is a limited partner in this partnership designed to provide diversified global private equity funds. This is an illiquid investment and redemptions are not permitted.

**(f) UBS Trumbull Property Fund**

The UBS Trumbull Property Fund is a partnership that actively manages a core portfolio of equity real estate. The fund seeks to provide attractive returns while limiting downside risk. The Society is a limited partner in the fund. Redemptions are allowed on a quarterly basis with 60 days' notice and may be subject to a redemption queue.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### D. PROPERTY AND EQUIPMENT

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

	<b>2016</b>	<b>2015</b>
Furniture and equipment	\$ 326,432	\$ 326,432
Capitalized software	1,632,708	1,447,974
Computer equipment	169,069	174,108
Leasehold improvements	<u>367,123</u>	<u>364,273</u>
	2,495,332	2,312,787
Less accumulated depreciation and amortization	<u>(1,700,720)</u>	<u>(1,616,755)</u>
	<b><u>\$ 794,612</u></b>	<b><u>\$ 696,032</u></b>

### 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 plan is not funded and therefore has no assets. 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 net change in accrued postretirement benefit cost and benefit expense recognized for the years ended December 31, 2016 and 2015 included the following components:

	<b>2016</b>	<b>2015</b>
Service cost for benefits earned during the year	\$ 10,651	\$ 11,387
Interest cost on accumulated postretirement benefit obligation	<u>24,384</u>	<u>23,695</u>
Net periodic benefit cost	35,035	35,082
Change in actuarial assumptions	19,940	(14,933)
Actuarial loss	31,310	12,447
Contributions paid on behalf of current retired participants	<u>(49,217)</u>	<u>(47,529)</u>
Change in accrued postretirement benefit cost	<b><u>\$ 37,068</u></b>	<b><u>\$ (14,933)</u></b>

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### E. POSTRETIREMENT BENEFITS - CONTINUED

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,:

	<b>2016</b>	<b>2015</b>
Retirees	\$ 351,830	\$ 298,114
Other active participants	<u>216,453</u>	<u>233,101</u>
Accrued postretirement benefit cost	<b><u>\$ 568,283</u></b>	<b><u>\$ 531,215</u></b>
Weighted average assumed discount rate	4.25%	4.50%
Rate of salary increase assumed	2.5%	2.5%

The expected future benefit payments are as follows:

Year Ending December 31,	Amount
2017	\$ 31,400
2018	30,700
2019	30,800
2020	30,100
2021	29,700
2022 - 2026	<u>149,900</u>
	<b><u>\$ 302,600</u></b>

### F. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consists of the following at December 31,:

	<b>2016</b>	<b>2015</b>
Purpose restricted for specific Society programs	\$ 462,837	\$ 7,000
Time restricted	<u>46,458</u>	<u>84,008</u>
	<b><u>\$ 509,295</u></b>	<b><u>\$ 91,008</u></b>

**Notes to the Financial Statements**

**G. ENDOWMENT**

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

*Interpretation of Relevant Law*

The Society has interpreted the *Uniform Prudent Management of Institutional Funds Act of 2008 (UPMIFA)* enacted by the General Assembly of the Commonwealth of Virginia as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified 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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances at January 1, 2016	\$ -	\$ -	\$ 1,811,804	\$ 1,811,804
Contributions			70,000	70,000
Investment return:				
Interest and dividends		43,188		43,188
Investment fees		(7,078)		(7,078)
Net appreciation (realized and unrealized)		106,633		106,633
Total investment income	-	142,743	70,000	212,743
Appropriation of endowment assets for expenditure		(142,743)		(142,743)
Balances at December 31, 2016	\$ -	\$ -	\$ 1,881,804	\$ 1,881,804

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### G. ENDOWMENT – CONTINUED

Changes in endowment net assets for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances at January 1, 2014	\$ -	\$ -	\$ 1,811,804	\$ 1,811,804
Contributions				
Investment return:				
Interest and dividends		43,172		43,172
Investment fees		(7,064)		(7,064)
Net (depreciation) (realized and unrealized)		(37,313)		(37,313)
Total investment loss	\$ -	(1,205)	-	(1,205)
Transfer from reserve to preserve donor restricted fund value		1,205		1,205
Balances at December 31, 2015	\$ -	\$ -	\$ 1,811,804	\$ 1,811,804

#### *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 deficiencies of \$0 and \$1,205 as of December 31, 2016 and 2015, respectively.

#### *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 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 permanently restricted Education Grant endowment funds are a subset of the total investment fund held by the Society.

# Air Force Aid Society, Inc.

## Notes to the Financial Statements

### G. ENDOWMENT - CONTINUED

*Spending policy and how the investment objectives relate to spending policy*

The Society has a policy of maintaining the full historical value of the permanently restricted endowments. As of December 31, 2016, the full investment portfolio is invested using a target asset mix of 51% equity, 24% fixed income securities and cash, and 25% alternative investments, per the Board approved investment policy, in an effort to generate returns to cover the long-term spending target of 5.0%. Included in the 5%, 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.

### H. EDUCATIONAL PROGRAM EXPENSES

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

	2016	2015
General H.H. Arnold Education Grants	\$ 5,827,477	\$ 5,578,854
Educational Program Administration	849,143	963,328
Youth Employment Services Program	37,139	131,063
	<u>\$ 6,713,759</u>	<u>\$ 6,673,245</u>

### I. RETIREMENT PLAN

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 2016 and 2015. During 2016 and 2015, the Society contributed \$185,211 and \$183,173, 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.

**Notes to the Financial Statements**

**J. COMMITMENTS**

Alternative investments: During the year ended December 31, 2016, the Society entered into additional commitments for the future purchase of additional alternative investments. The following presents further information regarding these alternative investments:

Alternative Investment	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Lombard/Harvest MLP Income III Fund	5,400,000	See (a) below	See (a) below
Benefit Street Partners Debt Fund IV	4,500,000	See (b) below	See (b) below
Crescent Capital BDC, Inc.	4,500,000	See (c) below	See (c) below

**(a) Lombard International / Harvest MLP Income III Fund**

The Harvest MLP Income III Fund is designed to capture a high risk-adjusted return by investing in a portfolio of energy securities in Master Limited Partnerships with track records of consistent growth through organic expansion and accretive acquisitions, unique market advantages, high quality management team, or improving distribution payouts. In an effort to protect the Society from potential Unrelated Business Taxable Income (UBTI), this investment is structured as a group variable annuity through Lombard International, which invests in the Harvest MLP Income III fund through an Insurance Company Separate Account. The full commitment of \$5.4 million was transferred to Lombard International in Dec 2016; however the actual investment in the Harvest MLP Income III Fund was not actually made until January 2017. Hence, the \$5.4 million was invested in a money market account by Lombard International as of 12/31/2016, awaiting the settlement of the investment into the Harvest MLP Income III Fund. Redemptions are permitted as needed; following a 30-day notification period from the date Harvest is notified with a request to redeem funds. At December 31, 2016, this investment is included in money markets in footnote C.

**(b) Benefit Street Partners Debt Fund IV**

The Benefit Street Partners Debt Fund IV aims to target investment opportunities created by the structural supply/demand imbalance for middle market debt in North America. The Fund's investment objective is to deliver superior investment performance while maintaining downside protection by identifying and capturing opportunities for excess returns in the private debt market while targeting debt investment of between \$10 million and \$100 million. The Society is investing in the Benefit Street Partners Debt Fund IV through a Cayman Islands feeder fund treated as a corporation for tax persons, protecting the Society from Unrelated Business Income. Funds are locked during the 7 year fund term and not redeemable, however cash related to net interest earned on the investments will be distributed on a quarterly basis.

**J. COMMITMENTS - CONTINUED**

**(c) Crescent Capital BDC, Inc.**

The Crescent Capital BDC, is a Delaware corporation formed for the purpose of originating and investing primarily in secured debt and unsecured debt, as well as related equity securities of private U.S. middle-market companies. The Society subscribes for shares in the company at a pre-determined capital commitment level. The Society's committed capital is locked up for four years, pending a planned IPO by the company. After a successful IPO, the Society will need to wait another 180 days before they will be able to sell their ownership shares at will. Crescent Capital BDC, Inc. intends to distribute substantially all of its available earnings on a quarterly basis, so the Society will have access to some cash flow from the investment.

Office Lease: The Society has a non-cancelable operating lease to rent office space, which expires in August 2018. The lease agreement provided an abatement of three month's rent for the Society during 2015. Rent expense for the years ended December 31, 2016 and 2015 was \$273,931 and \$275,883, respectively.

Future minimum lease payments due are as follows:

Year Ending December 31,	Amount
2017	\$ 295,075
2018	199,645
	<b>\$ 494,720</b>

T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

## Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of the Air Force Aid Society, Inc. (the Society) as of and for the years ended December 31, 2016 and 2015 and issued our report thereon dated DATE which expressed an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on the following pages is presented for the purposes of additional analysis of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information on pages 21 and 22 is fairly stated in all material respects in relation to the financial statements as a whole.

Washington, DC  
May 30, 2017

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# Air Force Aid Society, Inc.

## Schedule of Functional Expenses Year Ended December 31, 2016

	Program Services				Supporting Services			
	Emergency Assistance	Educational Assistance	Community Enhancement	Total Program Services Expenses	Management and general	Fundraising	Total Supporting Services Expenses	Total
Grants and conversions	\$ 1,550,368	\$ 5,864,616	1,318,035	\$ 8,733,019	\$ -	\$ -	\$ -	\$ 8,733,019
Salary and benefits	1,329,281	484,566	209,542	2,023,389	962,588	288,120	1,250,708	3,274,097
Occupancy	111,215	40,542	17,532	169,289	80,536	24,106	104,642	273,931
Education grant program fees	-	252,670	-	252,670	-	-	-	252,670
Fundraising	-	-	-	-	-	221,067	221,067	221,067
Marketing Initiatives	-	-	-	-	107,348	-	107,348	107,348
IT systems upgrade and maintenance	45,040	16,419	7,100	68,559	32,616	9,763	42,379	110,938
Depreciation and amortization	30,346	11,062	4,784	46,192	21,975	6,577	28,552	74,744
Miscellaneous	29,557	9,326	4,033	42,916	18,526	5,545	24,071	66,987
Professional services	27,110	9,883	4,274	41,267	19,632	5,876	25,508	66,775
Maintenance agreements and contracts	22,585	8,233	3,560	34,378	16,354	4,895	21,249	55,627
Accounting fees	-	-	-	-	46,488	-	46,488	46,488
Insurance	18,544	6,760	2,923	28,227	13,428	4,019	17,447	45,674
Travel	10,190	3,715	1,607	15,512	7,380	2,209	9,589	25,101
Supplies	6,323	2,305	997	9,625	4,579	1,371	5,950	15,575
Telephone	5,507	2,008	868	8,383	3,988	1,194	5,182	13,565
Postage	4,177	1,523	658	6,358	3,025	905	3,930	10,288
Bad debt expense	5,206	-	-	5,206	-	-	-	5,206
A&FRC / Base Training	4,843	-	-	4,843	-	-	-	4,843
AFAS Board & Committee expenses	-	-	-	-	3,305	-	3,305	3,305
After hours phone support	1,584	-	-	1,584	1,017	-	1,017	2,601
Printing and publications	261	131	17	409	76	23	99	508
<b>Total expenses by program</b>	<b>\$ 3,202,137</b>	<b>\$ 6,713,759</b>	<b>\$ 1,575,930</b>	<b>\$ 11,491,826</b>	<b>\$ 1,342,861</b>	<b>\$ 575,670</b>	<b>\$ 1,918,531</b>	<b>\$ 13,410,357</b>
Percentage of total expenses	24%	50%	12%	86%	10%	4%	14%	100%

The above Emergency Assistance "Grants and conversions" line reflects only \$1,550,366 in grants and none of the \$6.0 million in interest free loans given during 2016, which per accounting rules remain a statement of financial position asset until paid off. In 2016, the Air Force Aid Society was able to assist over 14,000 emergency assistance cases through a combination of grants and/or interest free loans.

# Air Force Aid Society, Inc.

## Schedule of Functional Expenses Year Ended December 31, 2015

	Program Services				Supporting Services			
	Emergency Assistance	Educational Assistance	Community Enhancement	Total Program Services Expenses	Management and general	Fundraising	Total Supporting Services Expenses	Total
Grants and conversions	\$ 1,655,684	5,709,917	1,471,739	\$ 8,837,340	\$ -	\$ -	\$ -	\$ 8,837,340
Salary and benefits	1,329,621	507,909	200,575	2,038,105	886,414	310,568	1,196,982	3,235,087
Education grant program fees	-	329,876	-	329,876	-	-	-	329,876
Occupancy	113,388	43,314	17,105	173,807	75,591	26,485	102,076	275,883
Fundraising	-	-	-	-	-	242,381	242,381	242,381
IT systems upgrade and maintenance	67,594	25,821	10,197	103,612	45,063	15,788	60,851	164,463
Depreciation and amortization	29,143	11,132	4,396	44,671	19,429	6,807	26,236	70,907
Professional services	27,126	10,362	4,092	41,580	18,084	6,336	24,420	66,000
Miscellaneous	28,626	9,003	3,555	41,184	13,589	5,505	19,094	60,278
Maintenance agreements and contracts	23,403	8,940	3,530	35,873	15,604	5,466	21,070	56,943
Accounting fees	-	-	-	-	45,540	-	45,540	45,540
Insurance	17,529	6,696	2,644	26,869	11,686	4,094	15,780	42,649
Supplies	7,542	2,881	1,138	11,561	5,029	1,761	6,790	18,351
Printing and publications	7,449	2,845	1,124	11,418	4,965	1,740	6,705	18,123
Telephone	5,589	2,135	843	8,567	3,726	1,305	5,031	13,598
Bad debt expense	11,438	-	-	11,438	-	-	-	11,438
Postage	4,486	1,713	677	6,876	2,991	1,048	4,039	10,915
A&FRC / Base Training	2,475	-	3,368	5,843	-	-	-	5,843
Travel	1,835	701	277	2,813	1,223	428	1,651	4,464
AFAS Board & Committee expenses	-	-	-	-	3,793	-	3,793	3,793
After hours phone support	1,519	-	-	1,519	1,120	-	1,120	2,639
Marketing Initiatives	-	-	-	-	2,125	-	2,125	2,125
<b>Total expenses by program</b>	<b>\$ 3,334,447</b>	<b>\$ 6,673,245</b>	<b>\$ 1,725,260</b>	<b>\$ 11,732,952</b>	<b>\$ 1,155,972</b>	<b>\$ 629,712</b>	<b>\$ 1,785,684</b>	<b>\$ 13,518,636</b>
Percentage of total expenses	25%	49%	13%	87%	9%	5%	13%	100%

\*The above Emergency Assistance "Grants and conversions" line reflects only \$1,655,684 in grants and none of the \$6.4 million in interest free loans given during 2015, which per accounting rules remain a statement of financial position asset until paid off. In 2015, the Air Force Aid Society was able to assist 15,000 emergency assistance cases through a combination of grants and/or interest free loans.