

# AAFMAA



*Protecting You While You Protect Us*

2005 ANNUAL REPORT

OUR MISSION IS TO BE THE PREMIER PROVIDER OF  
INSURANCE AND SURVIVOR SERVICES TO THE ARMY  
AND AIR FORCE COMMUNITIES.

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Vice Chairman of the Board  
Chairman, Finance Committee



**JACK N. MERRITT**  
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COL, USA, Retired

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BG, USA, Retired

(Board members are listed in order of  
longevity on the Board.)

## MESSAGE FROM THE CHAIRMAN



AAFMAA DOES NOT  
LIMIT INSURANCE  
ELIGIBILITY OR  
COVERAGE AMOUNT  
BASED UPON RANK,  
DEPLOYMENT STATUS,  
LOCATION, OR  
MILITARY OCCUPATION  
SPECIALTY.

In 1876, the Battle of the Little Big Horn starkly emphasized the desperate circumstances of bereaved Army families of that era. When a death occurred on the frontier, the family was usually in need, and the Army's method of resolving those needs was a literal "passing of the hat" to raise money for the surviving family members. This system collapsed after this battle because there was no one left to place money into the hat. Consequently, in 1879 the Army Mutual Aid Association, with an emphasis from Mrs. Custer, was established to take care of the soldiers' surviving family members. Over the years, the Association has evolved to include all ranks of active duty, retired, Guard and Reserve, and all members of the Air Force. In 1987, our name was officially changed to the Army and Air Force Mutual Aid Association. For 127 years we have been an active membership association created by military members, for the benefit of military members and their families. AAFMAA is wholly dedicated to providing stability and support for you, the member, and for your survivors in their time of need.

As a mutual association, every AAFMAA member mutually shares in the savings achieved. Members benefit from low premiums, additions to cash values on Value-Added Whole Life policies and term premium refunds because AAFMAA maintains a team of salaried Membership Coordinators who are not paid commissions, has low overhead costs, a dedicated staff and a volunteer, non-compensated Board of Directors. Some additional member benefits offered in 2005 include:

- Reduced premium rates on Level Term II policies
- Increased term coverage to a maximum of \$800,000
- Implemented female rates on Level Term II policies
- Expanded term coverage for children and grandchildren ages 18-23

AAFMAA continues to provide unbeatable low-cost life insurance. Equally important to the insurance are the services provided to care for the families of deceased service members. Survivor Assistance Services are the core of AAFMAA's founding principles. These services are included with every member's policy and remain for the lifetime of the surviving widow(er). I am proud to report that in 2005 AAFMAA helped hundreds of survivors with these invaluable services. With the on-going war on global terrorism, highlighted by Iraq and Afghanistan, the importance of AAFMAA's service to our members and their families has never been more important.

AAFMAA is there for the Army and Air Force communities, offering permanent and term life insurance at a minimum cost and providing immediate cash and valuable Survivor Assistance Services to the bereaved families of its members. AAFMAA does not limit insurance eligibility or coverage amount based upon rank, deployment status, location, or military occupation specialty. For 127 years AAFMAA has remained true to its fundamental duty of support to service members and their families. AAFMAA will continue that mission...ALWAYS.

Yours very truly,

A handwritten signature in blue ink that reads "Robert W. Sennewald".

ROBERT W. SENNEWALD  
General, USA, Retired

# MESSAGE TO THE ARMY AND AIR FORCE MUTUAL AID ASSOCIATION

AFMAA'S LEGACY OF SUPPORT, COMMITMENT, DEEDS, AND SERVICE HAS BROUGHT PEACE OF MIND AND SECURITY DURING THESE DIFFICULT AND UNCERTAIN TIMES TO THE MEMBERS OF OUR ARMED FORCES AND THEIR FAMILIES.

## UNITED STATES AIR FORCE

15 February 2006

Since 1879, the Army and Air Force Mutual Aid Association has been an invaluable resource for our military in times of personal need. Congratulations on 127 years of excellence.

A central concern of the Air Force leadership is the financial and emotional welfare of our military members and their families. The Army and Air Force Mutual Aid Association's legacy of support, commitment, deeds and service has brought peace of mind and security during these difficult and uncertain times to the members of our Armed Forces and their families.

Your Association has earned our deepest respect and gratitude for its important work and for its countless efforts on behalf of our men and women in uniform. Thank you for the work that you perform and best wishes for continued success.

Sincerely,



**T. MICHAEL MOSELEY**  
General, United States Air Force

## UNITED STATES ARMY

15 February 2006

I would like to express my most sincere appreciation to the Army and Air Force Mutual Aid Association for 127 years of dedicated assistance and support provided to the Soldiers of America's Army and their families.

Today, our Armed Forces enjoy the undisputed distinction of being the best in the world. The readiness of our young men and women is inextricably linked to their well-being. Since 1879, the Army and Air Force Mutual Aid Association has played an important role in making its services available in times of need. Our Soldiers can face the hazards of duty and separation from loved ones knowing that, if needed, their family members will receive competent and compassionate assistance and support from your organization.

Thank you and best wishes for continued success. God bless you and your families, our Soldiers and our Nation.

Sincerely,



**PETER J. SCHOOMAKER**  
General, United States Army



THE GROWTH  
EXPERIENCED IN 2005  
ILLUSTRATES  
AAFMAA'S SUCCESS  
IN ANSWERING THE  
IMPORTANT NEEDS  
OF THE ARMY AND  
AIR FORCE  
COMMUNITIES.

AAFMAA was founded to fulfill a critical need; raising money for the surviving families of Army officers. Over 127 years later, fulfilling service members' needs is still AAFMAA's guiding principle. From determining the appropriate amount of life insurance, to obtaining the best insurance, to caring for survivors, AAFMAA focuses on providing solutions to members' and their families' needs.

The growth experienced in 2005 illustrates AAFMAA's success in answering the important needs of the Army and Air Force communities. AAFMAA sold over \$3.4 billion of insurance in 2005, the most insurance that AAFMAA has ever sold in one year. Net insurance in force grew from \$9.6 billion in 2004 to \$12.1 billion in 2005. Policies in force grew by 3,103 policies (a record net gain) to an all time high of 100,902. On average, 457 new members joined AAFMAA each month in 2005. Net membership grew by an average of 220 members per month. Membership at year end was at an all time high of 72,804 members. Strong membership growth reflects the continued vitality and appeal of AAFMAA. Lives insured, which includes members, spouses, children and grandchildren, grew to 77,499.

AAFMAA's investment performance further evidences our success. AAFMAA adheres to strict investment guidelines, which have proven to be very successful. In 2005 the Net Yield on Assets was 6.4%. Our total admitted assets for 2005 equaled \$834 million. As a non-profit, member-owned, mutual association, our goal is to benefit all members. After expenses are paid, the remaining funds are returned to the members and other policy holders as additions to cash values, annual term refunds, lower cost insurance, increased reserves or more services. For 2006, AAFMAA is able to achieve an attractive 6.9% Crediting Rate on policy cash values.

There will always be a need for life insurance. For those life insurance needs, AAFMAA will always be there with a solution. As evidenced by the record growth achieved in 2005, AAFMAA's commitment to provide life insurance and Survivor Assistance Services to Army and Air Force members and their families has brought peace of mind to many. We count on our members to help spread the word about the great work that your association staff performs for all members.

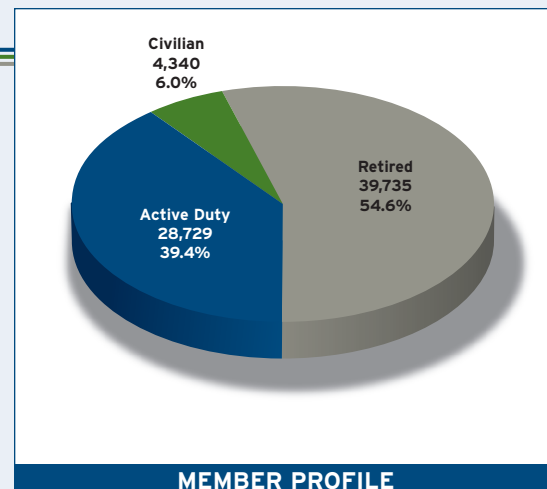
A handwritten signature in blue ink that reads "Walter R. Lincoln".

**WALTER R. LINCOLN, CFP®**  
MAJ, USA, Retired  
President and Treasurer

# AAFMAA OVERVIEW 2005

## COMPARATIVE HIGHLIGHTS

	YEAR ENDED 31 DECEMBER	
	2005	2004
Insurance in force (\$ millions)	\$12,080	\$9,605
Total reserves (\$ millions)	\$811	\$785.6
Number of members	72,804	70,167
Number of member deaths	833	878
Death benefits paid (\$ millions)	\$38.6	\$33.6
Net Yield on Assets	6.4%	6.3%



### STATEMENT OF THE ASSOCIATION ACTUARY A.C. EDDY, INC., NORCROSS, GA

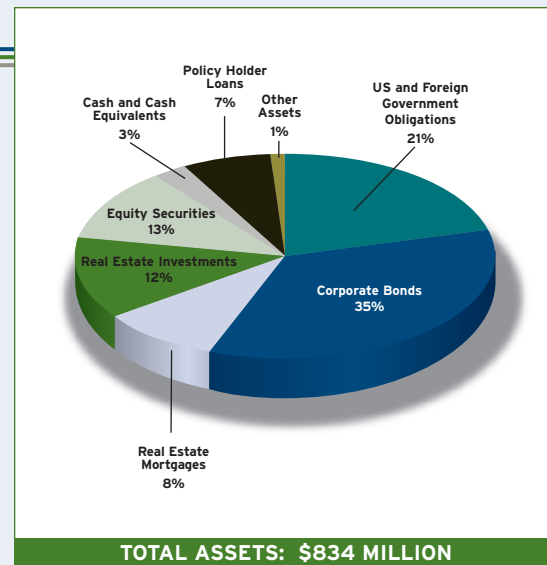
In my opinion the reserves of the Association are necessary and sufficient to provide for liabilities to its membership and will achieve the objective of distributing the Association's assets to members and/or their beneficiaries in an equitable manner.

## 2005 ASSETS

### SUMMARY OF ASSETS

SECURITIES	YEAR ENDED 31 DECEMBER	
	AMORTIZED VALUE	MARKET VALUE
U.S. and Foreign Government Obligations	\$ 176,071,483	\$ 174,537,082
Corporate Bonds	291,265,545	310,917,346
Real Estate Mortgages	61,777,646	61,777,646
Real Estate Investments	101,841,438	143,370,000
Equity Securities*	105,962,143	105,962,143
Cash and Cash Equivalents	26,180,145	26,180,145
Accrued Investment Income	8,570,721	8,570,721
<b>Total Securities</b>	<b>771,669,121</b>	<b>831,315,083</b>
Policy Holder Loans	61,825,972	61,825,972
Property & Equipment Net of Accumulated Depreciation	473,517	473,517
Other Assets	356,066	356,066
<b>Total Assets</b>	<b>\$ 834,324,676</b>	<b>\$ 893,970,638</b>

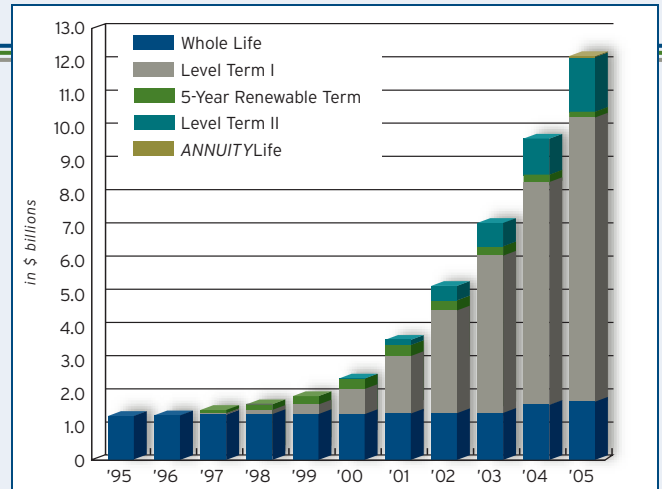
\*Equity Securities are valued at market.



## INSURANCE IN FORCE

Insurance in force, beginning of year	\$9,604,880,344
Insurance sold	\$3,476,899,019
Death benefit growth	\$10,916,275
Death benefits incurred	(\$38,641,431)
Other terminations	(\$973,908,020)

**Insurance in force, end of year** . . . . \$12,080,146,187

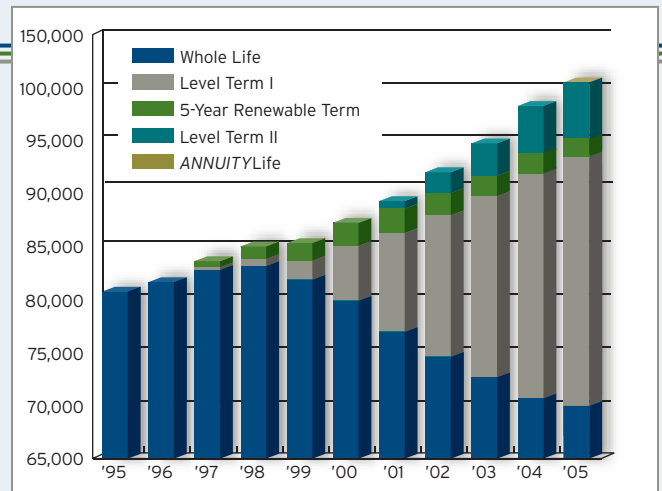


## POLICIES IN FORCE

Policies in force, beginning of year	97,799
New policies issued	9,126
Policies matured by death	(1,230)
Other policy net terminations	(4,793)

**Policies in force, end of year** . . . . .100,902

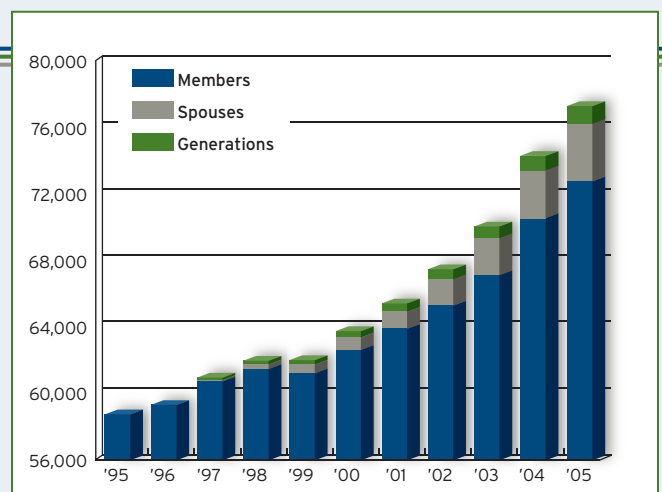
*Note: Beginning balance includes 232 Service Only (SO) policies and ending balance includes 226 SO policies.*



## LIVES INSURED

Members, beginning of year	70,167
Gains	5,480
Losses	(2,843)
Members, end of year	72,804
Spouses and Generations, beginning of year	3,716
Gains	1,084
Losses	(105)
Spouses and Generations, end of year	4,695

**Lives insured, end of year** . . . . .77,499



# STATEMENT OF ASSETS, LIABILITIES AND RESERVES

## STATUTORY BASIS

FOR THE YEAR ENDED 31 DECEMBER 2005

### ASSETS

#### BONDS

U.S. and Foreign Government Obligations.....	\$ 176,071,483	
Corporate Bonds.....	<u>291,265,545</u>	
<b>Total Bonds.....</b>		\$ 467,337,028

<b>REAL ESTATE MORTGAGES.....</b>		61,777,646
<b>REAL ESTATE INVESTMENTS.....</b>		101,841,438
<b>EQUITY SECURITIES.....</b>		105,962,143
<b>POLICY HOLDER LOANS.....</b>		61,825,972
<b>CASH AND CASH EQUIVALENTS.....</b>		26,180,145
<b>ACCRUED INVESTMENT INCOME.....</b>		8,570,721
<b>PROPERTY AND EQUIPMENT, AT COST</b>		
(less accumulated depreciation of \$1,004,465).....		473,517
<b>OTHER.....</b>		<u>356,066</u>
<b>TOTAL ASSETS.....</b>		<u><u>\$ 834,324,676</u></u>

### LIABILITIES AND RESERVES

#### LIABILITIES

Death Benefits Payable.....	\$ 9,885,602	
Accounts Payable.....	7,373,600	
Deferred Revenue.....	1,361,346	
Settlement Options Payable.....	4,033,046	
Accrued Post-Retirement Benefits.....	<u>403,931</u>	
<b>TOTAL LIABILITIES.....</b>		\$ 23,057,525

#### RESERVES

Insurance and Other.....	\$ 620,623,763	
Interest Maintenance.....	45,493,188	
Contingency Reserve		
Asset Valuation.....	\$ 26,879,088	
War Risk.....	40,223,581	
General Contingency.....	<u>78,047,531</u>	
<b>Total Contingency Reserve.....</b>		<u>145,150,200</u>
<b>TOTAL RESERVES.....</b>		<u>811,267,151</u>

<b>TOTAL LIABILITIES AND RESERVES.....</b>		<u><u>\$ 834,324,676</u></u>
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See Notes to Financial Statements



# STATEMENT OF INCOME AND RESERVES

## STATUTORY BASIS

FOR THE YEAR ENDED 31 DECEMBER 2005

<b>INCOME</b>		
Premiums .....	\$ 38,334,696	
Dues .....	78,271	
Consideration for supplemental contracts .....	1,070,264	
Net investment income .....	47,064,274	
Amortization of Interest Maintenance Reserve .....	<u>3,863,591</u>	\$ 90,411,096
<b>BENEFITS AND EXPENSES</b>		
Death benefit claims .....	\$ 38,641,431	
less war claims .....	<u>(8,900,000)</u>	
Net death benefit claims .....	\$ 29,741,431	
Surrender benefits .....	17,129,039	
Services benefits .....	2,321,548	
Premium refunds, term insurance .....	773,429	
Supplemental contracts payments .....	266,470	
Insurance expense		
Increase in aggregate reserves for life policies .....	21,001,652	
Increase in reserves for supplemental contracts .....	941,178	
Increase in reserves for dues .....	33,101	
General administrative and operating expenses .....	<u>6,853,123</u>	<u>(79,060,971)</u>
<b>NET INCOME BEFORE EXCESS INTEREST CREDITS AND INVESTMENT TRANSACTIONS</b> .....		11,350,125
Excess interest credited to policies .....		<u>(7,371,656)</u>
<b>NET INCOME AFTER EXCESS INTEREST CREDITING</b> .....		3,978,469
Net realized gain on investments (excluding Interest Maintenance Reserve gains of \$993,401) .....		<u>11,395,799</u>
<b>NET INCOME</b> .....		<u><u>\$ 15,374,268</u></u>

<b>RESERVE TRANSACTIONS</b>		
<b>INSURANCE AND OTHER RESERVES, BEGINNING OF YEAR</b> .....		\$ 589,876,176
Increase in reserves for life policies .....	\$ 22,401,652	
Increase in reserves for supplemental contracts .....	941,178	
Increase in reserves for dues .....	33,101	
Excess interest credited .....	<u>7,371,656</u>	
Net change in reserves for the year .....		<u>30,747,587</u>
<b>INSURANCE AND OTHER RESERVES, END OF YEAR</b> .....		<u><u>\$ 620,623,763</u></u>

<b>GENERAL CONTINGENCY RESERVE</b>		
<b>GENERAL CONTINGENCY RESERVE, BEGINNING OF YEAR</b> .....		\$ 73,489,157
Net Income .....	\$ 15,374,268	
Increase in unrealized depreciation of equity securities .....	(6,478,017)	
Increase in non-admitted assets .....	(777,340)	
Decrease in Asset Valuation Reserve .....	5,339,463	
Increase in War Risk Reserve .....	(7,500,000)	
Increase in life insurance reserves due to War Risk Reserve .....	<u>(1,400,000)</u>	
Net change in reserves for the year .....		<u>4,558,374</u>
<b>GENERAL CONTINGENCY RESERVE, END OF YEAR</b> .....		<u><u>\$ 78,047,531</u></u>

See Notes to Financial Statements

# STATEMENT OF CASH FLOW

## STATUTORY BASIS

FOR THE YEAR ENDED 31 DECEMBER 2005

### CASH FLOWS FROM OPERATING ACTIVITIES

Net income .....		\$ 15,374,268
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of Interest Maintenance Reserve .....	\$ (3,863,591)	
Equity earnings in subsidiaries .....	(9,389,607)	
Realized net gains from investments .....	(12,394,039)	
Amortization/accretion of bond discounts/premiums .....	620,906	
Net increase in life & other reserves .....	20,447,587	
Depreciation .....	37,903	
Bad debt expense .....	<u>380,940</u>	(4,159,901)
Changes in operating assets and liabilities:		
Increase in Accrued Investment Income .....	\$ (484,647)	
Decrease in other assets .....	94,201	
Increase in Death Benefits Payable .....	5,592,351	
Increase in Accounts Payable .....	822,162	
Increase in Deferred Revenue .....	21,753	
Increase in Settlement Options Payable .....	1,818,533	
Decrease in Accrued Post-Retirement Benefits .....	<u>(37,529)</u>	<u>7,826,824</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES .....</b>		<b>19,041,191</b>

### CASH FLOWS FROM INVESTING ACTIVITIES

Policy Holder loans issued .....	\$ (19,291,987)	
Policy Holder loan repayments .....	22,676,334	
Securities purchased .....	(304,601,616)	
Securities sold/redeemed .....	267,029,463	
Capital Contributions to subsidiaries .....	(33,368,131)	
Distribution from subsidiaries .....	48,810,866	
Non-admitted assets purchased .....	<u>(783,176)</u>	
<b>NET CASH USED BY INVESTING ACTIVITIES .....</b>		<b>(19,528,247)</b>
Decrease in cash and cash equivalents .....		(487,056)
Cash and Cash Equivalents at Beginning of Year .....		<u>26,667,201</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR .....</b>		<b><u>\$ 26,180,145</u></b>

See Notes to Financial Statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

These notes summarize major accounting policies followed by AAFMAA to prepare our financial statements. The accompanying financial statements conform to statutory accounting practices. Although AAFMAA is not subject to insurance regulation, these financial statements conform to accounting practices used by insurance companies for regulatory reporting purposes. Such accounting practices, referred to as prescribed or permitted practices, are a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). Because a major objective of regulatory authorities is to protect the interests of policyholders, statutory accounting practices are oriented toward demonstrating the solvency of insurance companies and their ability to pay policyholder claims. Management believes statutory accounting practices more conservatively measure AAFMAA's financial position and results of operations. The more significant categories of differences between statutory accounting practices and GAAP are summarized below:

- Valuation of investments in bonds
- Accounting for the costs of acquiring new business
- Calculation of certain reserves for policy contract benefits
- Designation of certain assets as "non-admitted" under statutory accounting practices
- Accounting for investment in subsidiaries
- Recording of an Asset Valuation Reserve (AVR) and Interest Maintenance Reserve (IMR)

### Cash and Cash Equivalents

Cash includes currency on hand and demand deposits with banks or other financial institutions. Cash equivalents are short-term highly liquid investments with original maturities of three months or less.

### Investments

Investments are reported according to prescribed valuation procedures. Equities are reported at fair market value. Investments in bonds are reported at amortized cost in accordance with the National Association of Insurance Commissioners (NAIC).

Real estate mortgages, policy loans and Career Assistance Program (CAP) loans are reported at unpaid principal balances, or cost. The carrying values of loans are periodically evaluated and adjusted for any perceived impairment in value.

Interest on bonds is recorded as investment income when earned and adjusted for any amortization of premium or accretion of discount. Dividends are recorded as income when earned. Interest income from loans is recorded when earned, except on loans in foreclosure or where collection is uncertain. CAP loans are non-collateralized. CAP loans of approximately \$362,700 were written off due to non-performance during the year. This number represents about 1.4% of total CAP loans outstanding as of year-end.

Realized gains and losses on sales of investment securities are included in the Statement of Income and Reserves, except as noted in the Interest Maintenance Reserve section below. Unrealized gains and losses are included in the Contingency Reserves in the Statement of Assets, Liabilities and Reserves.

The Summary of Assets shows the amortized value and market value of each category of securities held by AAFMAA. Mortgages are private placements for which quoted market values are not available. For mortgages and policy loans, cost is used as the market value. Equity securities are reported at cost of \$123,438,138 less unrealized losses of \$17,475,995.

AAFMAA originates fixed rate commercial real estate mortgages. The loans are first lien mortgages on income producing properties with loan to value ratios of 75% or less. They have characteristics similar to conventional single-family home mortgage loans. If repaid early, there is an additional Prepayment Premium due. The Prepayment Premium is usually a percentage of the outstanding principal balance corresponding to the years left between the prepayment date and the final maturity of the loan.

AAFMAA has two wholly owned real estate investment subsidiaries: Starco Properties Holding LLC and Riverside Property LLC. Starco Properties Holding LLC was formed on 1 January 2004 as a single member limited liability company (LLC), for the purpose of holding individual LLCs, formed to own and operate real estate investment properties. This form of ownership limits risks and liabilities from one commercial real property affecting other commercial real properties owned by AAFMAA. Starco Properties Holding LLC has a total estimated market value of \$143,370,000 and was 92% leased at 31 December 2005. Riverside Property LLC was formed in September 2003 as a single purpose entity owning one office property in Washington, DC. The property was 100% leased to a single tenant up until its sale date, 21 January 2005, when the tenant exercised its option to purchase the property. AAFMAA intends to terminate Riverside Property LLC after the completion of its audit and the payment of 2005 D.C. Unincorporated Business Franchise Taxes and Arena Fees.

### Property and Depreciation

Under statutory accounting practices, the book values (cost less accumulated depreciation) of certain office equipment, furniture and application software are considered "non-admitted assets", i.e., assets accorded no value. As non-admitted assets, they reduce the amount in the General Contingency Reserve by the amount of their book value. As of 31 December 2005, \$685,525 of assets considered non-admitted reduced the General Contingency Reserve. The building, land improvements and certain other equipment (admitted assets) are being depreciated on a monthly basis. Total depreciation for the year was \$37,903.

### Use of Estimates

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

### Actuarial Reserves

Actuarial reserves for all policies are equal to the sum of the individual benefit plan accumulation values but not less than the minimum cash value for each policy. AAFMAA held certain additional reserves at 31 December 2005 such that the sum of accumulation values and these additional reserves were equal to or greater than minimum reserves for such policies as prescribed by the NAIC for regulated insurers. Excess interest credits, as reflected in the Statement of Income and Reserves, equaled the amount credited to cash value accounts in excess of statutory minimums.

### Interest Maintenance Reserve/Asset Valuation Reserve

An IMR is maintained based upon a formula prescribed by the NAIC for the purpose of capturing the realized gains and losses resulting from changes in the overall level of interest rates. These realized gains and losses are amortized into income over the approximate remaining life of the investments had they not been sold. An AVR is maintained based upon a formula prescribed by the NAIC for the purpose of providing for default and equity risks related to AAFMAA's invested assets.

### Concentration of Credit Risk

AAFMAA has a concentration risk. All of its Real Estate Mortgages and Real Estate Investments are in the Washington, DC metropolitan area. AAFMAA maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. In addition, AAFMAA maintains various accounts, containing securities and cash, in trust with a large bank custodian. These accounts are uninsured.

### Income Taxes

The Association is a tax-exempt, non-profit association as described in section 501(c)(23) of the Internal Revenue Code.

**2. NATURE OF BUSINESS**

AAFMAA was formed in 1879. It provides life insurance benefits and Survivor Assistance Services. Members consist of active, retired, reserve, and guard, officers, warrant officers, non-commissioned officers and soldiers and airmen of the US Army and US Air Force, cadets serving at the US Military Academy and US Air Force Academy, and cadets with ROTC scholarships and contracts. AAFMAA also offers insurance to the spouses, children and grandchildren of members. Spouses, children and grandchildren are NOT members unless qualified as such in their own right. AAFMAA provides interest-sensitive whole life and term life insurance and Survivor Assistance Services.

**3. RELATED-PARTY TRANSACTIONS**

Armed Forces Services Corporation (AFSC) was created 1 July 2000 to provide Living Services and Survivor Assistance Services under contract to AAFMAA. For the year ending 31 December 2005, AAFMAA incurred servicing expenses of \$2,321,548.

**4. EMPLOYEE BENEFITS**

**Retirement Plan**

AAFMAA has a 401(k) and profit-sharing plan that covers all employees who meet certain minimum eligibility requirements. AAFMAA may contribute as a matching contribution up to 6% of employee compensation. In addition, it may contribute an amount equal to 3% of compensation. The total retirement plan expense for the year ended 31 December 2005 was \$516,105 which includes \$273,422 of employees' elective deferrals.

**Life Insurance**

AAFMAA self-insures each employee for \$50,000 after one year of employment. Employees may obtain additional life insurance coverage with AAFMAA at their own expense if they qualify. Employees are NOT members of AAFMAA unless qualified as such in their own right.

**5. POST- RETIREMENT BENEFITS**

All retiree benefits have been eliminated except for those retirees and/or surviving spouses of retirees previously covered under the retiree health care plan. There are currently six retirees covered under the retiree health care plan; one is covered until age 65, and five are covered until death. Retiree health care plan costs to AAFMAA in 2005 were \$9,076.

The retiree health care plan costs AAFMAA 40% of premiums or a fixed monthly amount for select retirees; the retiree contributes 60%. Projected, cumulative obligations follow:

Five Retirees until death	\$ 50,362
One Retiree until age 65	<u>2,399</u>
Six total projected retiree costs	<u>\$ 52,761</u>

The deferred compensation plan has been eliminated. Three retirees will receive payouts of the amounts the retirees funded with deferrals from their compensation. The total value of assets remaining is \$351,170.

**6. COMMITMENTS**

AAFMAA has committed \$2,368,137 to AFSC to provide services to AAFMAA's members for 2006. As of 31 December 2005, the Association is committed to invest an additional \$11,000,000 in Starco Properties Holding LLC to fund the construction of two new buildings in Northern Virginia. There are no outstanding commitments to fund real estate mortgage loans.

**7. LAND LEASE**

In December 1998, AAFMAA entered into a 30-year agreement with the Department of the Army to lease the land upon which AAFMAA's building is located at Fort Myer, VA. The current year annual lease payment is \$13,455, which is subject to change based on an evaluation of fair market rental value to be performed every five years.

**TO THE BOARD OF DIRECTORS, ARMY AND AIR FORCE MUTUAL AID ASSOCIATION**

We have audited the accompanying statutory basis statements of assets, liabilities and reserves of Army and Air Force Mutual Aid Association as of December 31, 2005, and the related statutory basis statements of income and reserves and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

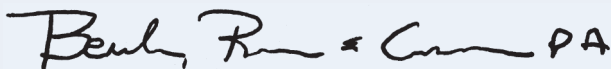
We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test 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 audit provides a reasonable basis for our opinion.

As described more fully in Note 1 to the financial statements, the Association prepared these financial statements using accounting practices prescribed or permitted by the National Association of Insurance Commissioners, which practices differ from generally accepted accounting principles (GAAP). The effects on the financial statements of the variances between the statutory basis of accounting and GAAP, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present, and are not intended to present in conformity with GAAP, the financial position of Army and Air Force Mutual Aid Association as of December 31, 2005, or the results of its operations or its cash flows for the year then ended.

In our opinion, the statutory basis financial statements referred to above do present fairly, in all material respects, the financial position of Army and Air Force Mutual Aid Association as of December 31, 2005, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information (Summary of Assets - 31 December 2005) 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.



**BERLIN, RAMOS & COMPANY, P.A.**

March 15, 2006

# STARCO PROPERTIES



**CHARLES B. BETANCOURT**  
GENERAL MANAGER  
STARCO PROPERTIES

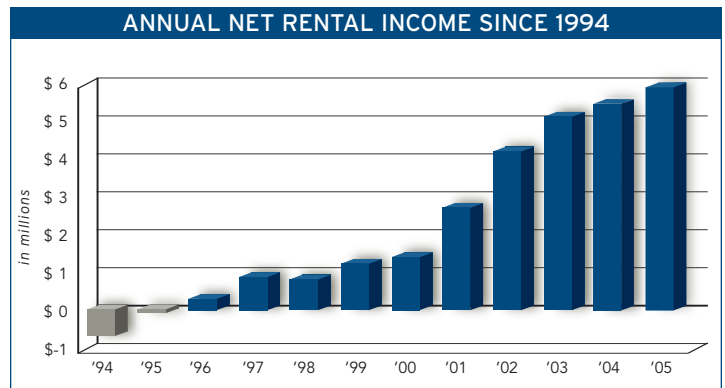
**STARCO HELPS TO DIVERSIFY AAFMAA'S INVESTMENT PORTFOLIO AND STRIVES TO GENERATE A RATE OF RETURN EQUAL TO OR EXCEEDING THE HISTORICAL RATE OF RETURN ON REAL ESTATE EQUITY.**

**S**tarco Properties (Starco) is wholly owned by AAFMAA and serves as AAFMAA's real estate equity investment arm. Starco helps to diversify AAFMAA's investment portfolio and strives to generate a rate of return equal to or exceeding the historical rate of return on real estate equity, adjusted for inflation. This is accomplished by offering exceptional value to tenants through a focus on providing class A office space and superior services.

In 1994 AAFMAA formed what was then known as Consolidated Realty, to eliminate losses and introduce efficiencies among real estate investment properties owned by AAFMAA.

In January of 2004, AAFMAA restructured its ownership of Consolidated Realty into multiple single purpose entities under the brand name of Starco Properties. The purpose of this restructuring was to insulate each of the commercial properties so that risks and liabilities from one commercial real property do not spill over and adversely affect other commercial real properties owned by AAFMAA. AAFMAA still retains 100% ownership of the assets.

Consistent with its mission, during 2005 Starco began the development of a two (2) building office complex in Chantilly, Virginia. On 28 December 2005, Starco acquired two (2) existing office buildings to take advantage of market growth in areas of Fairfax, Virginia and Columbia, Maryland. At the completion of development, Starco will own 10 buildings, totaling approximately 800,000 square feet.



## AAFMAA PRODUCTS AND SERVICES

### ALL AAFMAA POLICIES OFFER THESE VALUABLE FEATURES:

- **NO** war clause, **NO** aviation clause, **NO** terrorist clause
- **Can continue after separation or retirement** from the military
- **Survivor Assistance Services included** with every member's policy
- **No coverage limitations** based upon rank or deployment status
- Coverage available up to **\$800,000**

#### LEVEL TERM I

Level Term I is inexpensive term life insurance designed for active duty members and spouses under age 45. It is a great supplement or alternative to SGLI.

- Level premium and death benefit to age 50 (40 for nicotine users)
- Annual premium refunds for non-nicotine users, NOT guaranteed but paid since inception
- Save up to 35% over SGLI
- \$10,000 coverage, at no additional cost, for eligible children with member's policy
- Same low rates for member and spouse
- Children and grandchildren age 18-23 are also eligible for coverage

#### FAMILY VALUE PLAN

Family Value Plan compares to Family SGLI coverage with one big advantage — individual Level Term I policies for the member and spouse.

- All of the same features of Level Term I, plus
- Big savings over Family SGLI
- Spouse rates do not increase every 5 years after age 35 like Family SGLI rates do
- Unlike Family SGLI, spouse coverage is not limited to \$100,000



**AT THE HEART OF OUR 127 YEAR TRADITION “TO AID THE FAMILIES OF THE DECEASED MEMBERS IN A PROMPT, SIMPLE, AND SUBSTANTIAL MANNER,” AND INCLUDED WITH EVERY MEMBER’S POLICY, ARE AAFMAA’S SURVIVOR ASSISTANCE SERVICES.**

These include:

- Expedient payment of the death benefit
- Claims initiation, plus continuous follow-up
- Claims representation, plus follow-up in disputes
- Lifetime individualized benefit notification
- Social Security notification
- Financial Awareness Service
- Annual statement of spouse entitlements

## LEVEL TERM II

Level Term II is one of AAFMAA's most flexible, cost effective types of coverage designed for members and spouses generally over age 45. A great alternative to VGLI.

- You pick the coverage amount (\$50,000 – \$800,000) and term (5 to 30 years)
- Coverage can last up to age 85
- Low-cost female rates
- Great for spouse coverage!
- Premium NEVER increases for the life of the policy — death benefit NEVER decreases
- Must be purchased before age 76

## VALUE-ADDED WHOLE LIFE

Value-Added Whole Life offers the protection of permanent insurance, plus the cash value growth of interest sensitive life insurance.

- 100% money back guarantee for life (total premiums paid or cash value, whichever is GREATER)
- Premiums guaranteed to NEVER increase
- Borrow up to 75% of the cash value at 1% above the current crediting rate
- Attractive crediting rate (6.9% for 2006) — Guaranteed minimum 4.5%
- Long Term Care Settlement Option included with policy
- Flexible payments — Single Payment, 7, 20, 30 years, or Pay to age 100
- Can be purchased through age 79 for members and spouses, and through age 23 for children and grandchildren

## ANNUITYLIFE

ANNUITYLife offers all the benefits of permanent insurance with minimal underwriting, regardless of age, sex or nicotine use.

- Minimal medical underwriting — only 3 questions
- Requires payment of single premium, currently a minimum of \$8,170
- Option to annuitize the cash value immediately, at a later date, or never
- If annuitized, guaranteed payments to age 100 at 4%, with an annual “bonus” check if Net Yield on Assets exceeds 4%
- Can be purchased up to age 99

## A TRADITION OF PROTECTING ARMY AND AIR FORCE MEMBERS AND FAMILIES FOR 127 YEARS

AAFMAA was  
established in 1879  
by military members  
for military members  
to aid the families of

deceased soldiers with their final  
expenses. AAFMAA always puts the  
members' best interests first, from  
the purchase of the first policy to the  
final payout of the death benefit.

**Who can be a member?** All ranks  
of Army and Air Force, active duty,  
retired, National Guard and Reserve  
below the age of 66, USMA and  
USAFA cadets, and ROTC contract  
and scholarship cadets are eligible for  
membership.





GETTING MARRIED

BIRTH OF CHILD

DEPLOYING

SEPARATING/RETIRING

MUTUAL PROTECTION  
THROUGHOUT LIFE

BUYING A HOME

CHILDREN'S COLLEGE EXPENSES

PERMANENT RETIREMENT

LONG TERM CARE NEEDS

“WE ARE NOT PUT ON THIS EARTH FOR OURSELVES, BUT ARE PLACED HERE FOR EACH OTHER. IF YOU ARE THERE ALWAYS FOR OTHERS, THEN IN TIME OF NEED, SOMEONE WILL BE THERE FOR YOU.”

— JEFF WARNER



## ARMY AND AIR FORCE MUTUAL AID ASSOCIATION

102 Sheridan Avenue  
Ft Myer, VA 22211-1110

*Toll Free:* 1-866-4AAFMAA (422-3622)

*Local:* 703-522-3060

*Fax:* 703-522-1336

*E-mail:* [info@aafmaa.com](mailto:info@aafmaa.com)

*Web Site:* [www.aafmaa.com](http://www.aafmaa.com)

*Main Office Hours:* Monday – Friday, 8:30 AM – 4:30 PM

*Membership and Insurance Sales Telephone Hours*  
until 7:00 PM at 1-877-398-2263