Army Emergency Relief

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011,
Supplemental Schedules for the Years Ended
December 31, 2012 and 2011, and
Independent Auditors’ Report

ARMY EMERGENCY RELIEF

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers of
Army Emergency Relief
Alexandria, Virginia

We have audited the accompanying financial statements of Army Emergency Relief (the "Company" or "AER"), which comprise the statements of financial position as of December 31, 2012 and 2011, 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.

Auditors' 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 from 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 auditors' 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 auditors consider internal control relevant to the Company'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 Company'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 Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules listed in the table of contents on pages 16-19 are presented for the purpose of additional analysis and are not a required part of the financial statements. These supplemental schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such supplemental schedules have been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplemental schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Deloitte & Touche LLP

April 24, 2013

ARMY EMERGENCY RELIEF

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CASH AND CASH EQUIVALENTS	$ 14,654,560	$ 15,794,929
PLEDGES RECEIVABLE — Net of allowance for uncollectible pledges of $105,507 and $127,451, respectively	2,251,643	2,416,684
RECEIVABLE FROM SALE OF INVESTMENTS	944,834	783,911
INVESTMENTS — At fair value	244,911,344	234,052,690
ACCRUED INVESTMENT INCOME RECEIVABLE	716,593	882,837
LOANS RECEIVABLE — Net of allowance for doubtful loans of $2,972,366 and $3,187,422, respectively	45,758,783	46,618,667
PREPAID CHARGES AND OTHER ASSETS	365,911	315,782
OFFICE AND COMPUTER EQUIPMENT — Net of accumulated depreciation of $2,863,944 and $2,754,709, respectively	3,777,209	1,219,845
TOTAL	$313,380,877	$302,085,345
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	$ 675,355	$ 561,711
Payable for purchase of investments	2,046,714	1,582,905
Line of credit	4,997,848	9,997,848
Total liabilities	7,719,917	12,142,464
NET ASSETS:		
Unrestricted	293,048,061	277,375,394
Temporarily restricted:		
Annual fund campaign contributions	2,251,643	2,416,684
Atlantik-Brücke Scholarship Fund	978,937	961,964
MAJ Hugh Boyd Casey Memorial Award	20,315	20,268
Pentagon Scholarship Fund	7,561,212	7,367,779
Total temporarily restricted net assets	10,812,107	10,766,695
Permanently restricted:		
Anne A. Foster Fund	74,384	74,384
Emma Harbord Memorial Fund	18,618	18,618
GEN John Williams Morgan Memorial Fund	12,302	12,302
2LT. Chadwell Colt Robinson Memorial Fund	12,302	12,302
Military Service Institution Scholarship Fund	7,672	7,672
BG Joseph J. O'Hare Memorial Scholarship Fund	40,818	40,818
Beatrice Patton Waters Memorial Scholarship Fund	49,462	49,462
MG Joseph D. Patch, Richard King Patch, Joseph D. Patch, Jr., and Joseph D. Patch, III Memorial Scholarship Fund	88,752	88,752
MSG Alfred H. Carnot Memorial Scholarship Fund	6,615	6,615
COL Joseph J. Imhoff Memorial Fund	1,206,284	1,206,284
COL Anthony DiLorenzo Memorial Fund	22,455	22,455
Scholarship for Children of Army Personnel	261,128	261,128
Total permanently restricted net assets	1,800,792	1,800,792
Total net assets	305,660,960	289,942,881
TOTAL	$313,380,877	$302,085,345

See notes to financial statements.

ARMY EMERGENCY RELIEF

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND LOSSES:				
Annual fund campaign contributions	$ 6,852,359	$ 2,251,643	$ -	$ 9,104,002
Unsolicited contributions	1,847,247	349,137		2,196,384
Other income	830,777			830,777
Interest and dividends	6,427,949	205,299		6,633,248
Realized gain on investments	1,137,561	36,332		1,173,893
Unrealized gain on investments	21,654,526			21,654,526
Net assets released from restrictions — satisfaction of program restrictions	2,796,999	(2,796,999)		-
Total revenues and losses	41,547,418	45,412	-	41,592,830
EXPENSES:				
Operating:				
Grants and scholarships	15,584,868			15,584,868
Provision for uncollectibles	2,777,373			2,777,373
Custodian and investment counsel fees	1,053,309			1,053,309
Personal finance classes	902,826			902,826
Total operating expenses	20,318,376	-	-	20,318,376
Administrative:				
Salaries, retirement, and benefits	2,640,707			2,640,707
Payroll taxes	138,716			138,716
Automation	1,017,144			1,017,144
Equipment depreciation	109,235			109,235
Professional services	246,286			246,286
Insurance and blanket bond	42,398			42,398
Postage	115,116			115,116
Printing	204,581			204,581
Bank fees	75,388			75,388
Leases, maintenance, and maintenance contracts	700,060			700,060
Office supplies and equipment	45,064			45,064
Campaign publicity expense	88,534			88,534
Travel	22,673			22,673
Miscellaneous other	110,473			110,473
Total administrative expenses	5,556,375	-	-	5,556,375
Total expenses	25,874,751	-	-	25,874,751
CHANGE IN NET ASSETS	15,672,667	45,412	-	15,718,079
NET ASSETS — Beginning of year	277,375,394	10,766,695	1,800,792	289,942,881
NET ASSETS — End of year	$ 293,048,061	$ 10,812,107	$ 1,800,792	$ 305,660,960

See notes to financial statements.

ARMY EMERGENCY RELIEF

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND LOSSES:				
Annual fund campaign contributions	$ 7,258,166	$ 2,416,684	$ -	$ 9,674,850
Unsolicited contributions	2,522,728	46,650		2,569,378
Other income	405,363			405,363
Interest and dividends	6,369,092	189,410		6,558,502
Realized gain on investments	5,795,796	172,360		5,968,156
Unrealized losses on investments	(12,870,832)			(12,870,832)
Net assets released from restrictions — satisfaction of program restrictions	2,656,930	(2,656,930)		-
Total revenues and losses	12,137,243	168,174	-	12,305,417
EXPENSES:				
Operating:				
Grants and scholarships	15,070,628			15,070,628
Provision for uncollectibles	2,296,672			2,296,672
Custodian and investment counsel fees	1,085,587			1,085,587
Personal finance classes	1,213,270			1,213,270
Total operating expenses	19,666,157	-	-	19,666,157
Administrative:				
Salaries, retirement, and benefits	2,429,327			2,429,327
Payroll taxes	131,751			131,751
Automation	308,311			308,311
Equipment depreciation	406,642			406,642
Professional services	253,522			253,522
Insurance and blanket bond	42,703			42,703
Postage	120,301			120,301
Printing	229,386			229,386
Bank fees	75,273			75,273
Leases, maintenance, and maintenance contracts	513,333			513,333
Office supplies and equipment	79,048			79,048
Campaign publicity expense	23,371			23,371
Travel	14,067			14,067
Miscellaneous other	231,886			231,886
Total administrative expenses	4,858,921	-	-	4,858,921
Total expenses	24,525,078	-	-	24,525,078
CHANGE IN NET ASSETS	(12,387,835)	168,174	-	(12,219,661)
NET ASSETS — Beginning of year	289,763,229	10,598,521	1,800,792	302,162,542
NET ASSETS — End of year	$ 277,375,394	$ 10,766,695	$ 1,800,792	$ 289,942,881

See notes to financial statements.

ARMY EMERGENCY RELIEF

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Loan repayments	$ 60,004,159	$ 61,541,319
Unsolicited contributions and bequests	2,106,734	2,046,985
Annual fund campaign	9,269,043	9,846,965
Interest income	3,314,948	3,394,290
Dividends	3,484,545	3,107,775
Total cash receipts	78,179,429	79,937,334
Cash disbursements for:		
Loans	(61,562,686)	(62,790,324)
Grants and scholarships	(15,578,283)	(14,990,795)
Personal financial management class	(902,826)	(1,213,270)
Pentagon victims grants	(6,585)	(79,833)
Administrative expenses	(4,749,157)	(3,914,758)
Interest expense	(51,968)	(105,317)
Investment expenses	(1,074,341)	(980,270)
Total cash disbursements	(83,925,846)	(84,074,567)
Net cash used in operating activities	(5,746,417)	(4,137,233)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash receipts for — investment sales	139,223,546	118,231,351
Total cash receipts	139,223,546	118,231,351
Cash disbursements for:		
Purchase of office and computer equipment	(2,666,599)	(860,509)
Investment purchases	(126,950,899)	(113,491,064)
Total cash disbursements	(129,617,498)	(114,351,573)
Net cash provided by investing activities	9,606,048	3,879,778
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash disbursement — repayment of line of credit	(5,000,000)	(5,002,152)
Cash used in financing activities	(5,000,000)	(5,002,152)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,140,369)	(5,259,607)
CASH AND CASH EQUIVALENTS — Beginning of year	15,794,929	21,054,536
CASH AND CASH EQUIVALENTS — End of year	$ 14,654,560	$ 15,794,929

(Continued)

ARMY EMERGENCY RELIEF

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED USED IN ACTIVITIES:		
Change in net assets	$ 15,718,079	$ (12,219,661)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	109,235	406,642
Provision for uncollectible loans	2,777,373	2,296,672
Net realized and unrealized (gains) losses on investments	(22,828,419)	6,902,675
Decrease (increase) in assets:		
Pledges receivable	165,041	869,115
Accrued investment income receivable	166,245	(56,437)
Gross loans receivable	(1,917,488)	(2,343,170)
Prepaid charges and other assets	(50,129)	(6,010)
Increase in liabilities — accounts payable and accrued liabilities	113,646	12,941
NET CASH USED IN OPERATING ACTIVITIES	$ (5,746,417)	$ (4,137,233)

See notes to financial statements.

(Concluded)

1. ORGANIZATION

The Army Emergency Relief (AER) is a private, not-for-profit organization incorporated in the District of Columbia in 1942. AER provides financial assistance to active duty, reserve and retired army soldiers, and their dependents in time of emergency need.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The financial statements have been prepared on the accrual basis of accounting. AER presents its financial statements by classifying its net assets, revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of AER and changes therein are classified and reported as follows:

Unrestricted Net Assets — Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets include both designated and undesignated funds. The Board of Managers has approved the establishment of an operating reserve account (designated fund) to provide working capital and financing stability to AER for specific purposes. This fund was established to designate funds for expenditures that are within the normal operations of AER, either by virtue of the dollar amount to be expensed or by the nature of the expenditure.

Temporarily Restricted Net Assets — Net assets are subject to donor-imposed stipulations that will be met either by actions of AER and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets — Net assets are subject to donor-imposed stipulations that they be maintained permanently by AER, with investment income utilized for donor-stated purposes.

Cash and Cash Equivalents — AER considers cash in banks, all highly liquid money market funds, and short-term investments with original maturities of three months or less to be cash and cash equivalents.

Pledges Receivable — As of December 31, 2012 and 2011, AER recorded a receivable related to the army's annual fund campaign, which has a campaign year of June through May each year. The annual fund campaign net receivable as of December 31, 2012 and 2011, is $2,251,643 and $2,416,684, respectively, and is recorded as pledges receivable in the statements of financial position.

Investments — AER accounts for investments at fair value with any related gain or loss reported in the statements of activities. Investments in private equity funds and the real estate fund are stated at fair value, which is estimated by AER's management using valuation techniques that maximizes the use of observable inputs and minimizes the use of unobservable inputs.

As of December 31, 2012 and 2011, all investments were held in a portfolio managed by Northern Trust.

Loans Receivable — AER's primary disbursement of financial assistance is in the form of interest-free loans. Amounts due to AER are reported net of an estimated uncollectible allowance in the statements of financial position.

Office and Computer Equipment — Office and computer equipment is recorded at cost with depreciation being computed on a straight-line basis over a period ranging from three to 10 years.

Contributions Revenue — AER is supported by voluntary contributions from soldiers (active and retired) solicited during the army's annual fund campaign. Contributions are also accepted at any time from army or civilian individuals or organizations. Contributions are recorded in the period unconditional pledges are received.

Grants and Scholarships Expense — In addition to interest-free loans, AER provides assistance in the form of grants and scholarships. Grants and scholarships expense is recognized in the period the assistance is awarded.

Income Tax Status — AER is tax exempt under Section 501 (c)(3) of the Internal Revenue Code and no tax provision is necessary since all material activities are directly related to its tax-exempt purpose. ASC Topic 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in financial statements. ASC Topic 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing tax returns of AER to determine whether the tax positions will "more-likely-than-not" be sustained by the applicable tax authority. As a result, tax positions not meeting the more-likely-than-not threshold would result in a current year expense or the absence of a benefit, as appropriate for the tax position. AER has concluded that no provision for income tax is required in the Foundation's financial statements for the years ended December 31, 2012 and 2011.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events — The AER has evaluated all subsequent events that occurred after the balance sheet date and through the date that its audited financial statements were available to be issued on April 24, 2013.

3. INVESTMENT EARNINGS

Investment earnings for the years ended December 31, 2012 and 2011, consists of the following:

	2012	2011
Interest and dividends:		
U.S. Treasury and federal agencies	$ 781,630	$ 929,194
Corporate bonds and notes	2,147,300	2,108,259
Preferred and common stock	3,390,025	3,137,471
Real estate	266,552	335,665
Cash and cash equivalents	47,741	47,913
Total interest and dividends	6,633,248	6,558,502
Unrealized gains (losses) on investments:		
U.S. Treasury and federal agencies	(466,591)	1,231,646
Corporate bonds and notes	1,616,340	(361,671)
Preferred and common stock	18,643,086	(14,911,164)
Private equity funds	1,660,263	1,361,257
Real estate	201,428	(190,900)
Net unrealized gains (losses) on investments	21,654,526	(12,870,832)
Realized gains (losses) on investments:		
U.S. Treasury and federal agencies	497,526	398,850
Corporate bonds and notes	980,415	561,675
Preferred and common stock	(279,443)	5,037,418
Real estate	(24,605)	(30,000)
Other assets		213
Net realized gains on investments	1,173,893	5,968,156
Total investment gains (losses)	$ 29,461,667	$ (344,174)

4. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, AER adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification ASC 820-10, *Fair Value Measurements and Disclosures*, for its financial assets that are required to be measured at fair value on a recurring basis. These financial assets primarily consist of investments in equity securities, debt securities, and private investment funds that are required to be disclosed at fair value on an annual basis. Under FASB ASC 820-10, fair value is defined as the exit price, representing the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To value AER's financial investments, management uses market data or assumptions that market participants would use in pricing the asset.

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 (Quoted Prices in Active Markets) — Level 1 of the fair value hierarchy consists of assets or liabilities that are valued using observable inputs based upon unadjusted quoted prices in active markets for identical assets or liabilities at the reporting date.

Level 2 (Significant Other Observable Inputs) — Level 2 of the fair value hierarchy consists of assets or liabilities that are valued using directly or indirectly observable inputs that are corroborated with market data or based on exchange-traded market data.

Level 3 (Significant Unobservable Inputs) — Level 3 of the fair value hierarchy consists of assets or liabilities that are valued using significant unobservable inputs at the reporting date. AER adopted the measurement provisions of Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, for certain investments that do not have readily determinable fair values. ASU No. 2009-12 permits, as a practical expedient, the entity to use the investment's net asset value per share (NAV) to measure the fair value of the investment provided that the NAV is calculated as of the reporting entity's measurement date. ASU No. 2009-12 also requires enhanced disclosures by major investment category about the attributes of the investments within the scope, such as the nature of the restrictions, the amount of the unfunded commitments, and the description of the investments strategies. Investments for which quoted prices are not readily available, are classified as Level 3, including private equity funds, a real estate fund, and certain fixed-income securities. The fair value of these investments are estimated by AER's management based on the information contained in the latest audited financial statements of each investment, the evaluation of activities performed during the year, assessment of fair value adjustments made by the fund managers, and by comparing against external benchmarks.

The following table sets forth financial instruments recorded at fair value on a recurring basis as of December 31, 2012 and 2011. A financial instrument's classification within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. AER's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and their placement within the fair value hierarchy.

Fair value measurements under the fair value hierarchy at December 31, 2012, are as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash and cash equivalents	$ 14,353,219	$ 301,341	$ -	$ 14,654,560
Investments:				
U.S. Treasury and federal agencies		32,906,792		32,906,792
Corporate bonds and notes:				
Corporate bonds		27,830,204		27,830,204
Asset-backed securities		2,813,273	46,531	2,859,804
Commercial mortgage-backed securities		3,054,554		3,054,554
Municipal/provincial bonds		1,017,014	44,942	1,061,956
Non-government-backed C.M.Os		317,419		317,419
Convertible bonds		2,479,331		2,479,331
Total corporate bonds and notes	-	37,511,795	91,473	37,603,268
Preferred and common stock:				
Domestic preferred stock		278,932		278,932
International preferred stock	6,069			6,069
Domestic common stock	108,591,522	14,230		108,605,752
International common stock	38,769,846			38,769,846
Total preferred and common stock	147,367,437	293,162	-	147,660,599
Private equity funds			23,217,035	23,217,035
Real estate			3,523,650	3,523,650
Total investments at fair value	147,367,437	70,711,749	26,832,158	244,911,344
Total assets at fair value	$ 161,720,656	$ 71,013,090	$ 26,832,158	$ 259,565,904

Fair value measurements under the fair value hierarchy at December 31, 2011, are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 15,244,956	$ 549,973	$ -	$ 15,794,929
Investments:				
U.S. Treasury and federal agencies		30,566,172		30,566,172
Corporate bonds and notes:				
Corporate bonds		28,454,960	240,675	28,695,635
Asset-backed securities		1,494,751	46,250	1,541,001
Commercial mortgage-backed securities		3,555,683		3,555,683
Municipal/provincial bonds		1,092,537	41,750	1,134,287
Non-government-backed C.M.Os		460,212		460,212
Convertible bonds		2,994,931		2,994,931
Total corporate bonds and notes	-	38,053,074	328,675	38,381,749
Preferred and common stock:				
Domestic preferred stock	726,432	203,584		930,016
International preferred stock	95,282			95,282
Domestic common stock	108,543,988	42,000		108,585,988
International common stock	29,814,403			29,814,403
Total preferred and common stock	139,180,105	245,584	-	139,425,689
Private equity funds			22,568,172	22,568,172
Real estate			3,110,908	3,110,908
Total investments at fair value	139,180,105	68,864,830	26,007,755	234,052,690
Total assets at fair value	$ 154,425,061	$ 69,414,803	$ 26,007,755	$ 249,847,619

The following table is a summary of the changes in the fair value of AER's assets that are measured at net fair value on a recurring basis in accordance with FASB ASC 820-10-05-1 using significant Level 3 inputs for the years ended December 31, 2012 and 2011. Reconciliation of fair value measurements using significant Level 3 inputs for the year ended December 31, 2012, are as follows:

	Private Equity	Real Estate	Other
Balance — January 1, 2012	$ 22,568,172	$ 3,110,908	$ 328,675
Realized and unrealized gains (losses)	(362,537)	176,823	(237,202)
Additional investments/purchases	1,011,400	235,919	
Balance — December 31, 2012	$ 23,217,035	$ 3,523,650	$ 91,473

Reconciliation of fair value measurements using significant Level 3 inputs for the year ended December 31, 2011, are as follows:

	Private Equity	Real Estate	Other
Balance — January 1, 2011	$19,871,109	$3,030,886	$216,375
Realized and unrealized gains (losses)	1,361,259	(220,900)	112,300
Additional investments/purchases	1,335,804	300,922	
Balance — December 31, 2011	$22,568,172	$3,110,908	$328,675

Fiscal year ended December 31, 2009, AER adopted the measurement provisions of ASU No. 2009-12, *Investments in Certain Entities That Calculated Net Asset Value per Share (or its Equivalent)*, for certain investments that do not have readily determinable fair values. ASU No. 2009-12 permits, as a practical expedient, the entity to use the investment's net asset value "NAV" to measure the fair value of the investment provided that the NAV is calculated as of the reporting entity's measurement date. ASU 2009-12 also requires enhanced disclosure by major investment category about the attributes of the investments within the scope, such as the nature of the restrictions, the amount of unfunded commitments, and the description of the investments strategies.

For the years ended December 31, 2012 and 2011, AER had outstanding future funding commitments of approximately $4.82 million and $7.3 million related to agreements reached with private equity partnerships, respectively. These agreements do not specify when such funding requests will be made by the private-equity partnerships. AER's investments in the private-equity and real estate partnership are not subject to redemption and are normally returned through distribution at the point of termination of the respective partnerships. It is estimated that the investment in these partnerships would be liquidated on the 12th anniversary from the respective effective dates of the partnerships. The effective dates of the private-equity partnerships I, II, and III are April 2002, February 2005, and February 2007, respectively. For the real estate partnerships, it is estimated that the investments in the partnership would be liquidated in December 2016 with an option to extend the liquidation period to December 2018.

The private-equity funds represent approximately 86% and 87% of Level 3 assets as of December 31, 2012 and 2011, respectively, and include investments in buyout partnerships, venture capital, special situations, portfolio funds, and marketable securities. The real estate fund represents approximately 13% and 12% of the Level 3 assets as of December 31, 2012 and 2011, respectively, and includes investments in office buildings, hotels, land, and multifamily housing units. The remaining 1% and 1% of the Level 3 assets are composed of fixed-income securities, such as corporate bonds and asset-backed securities, respectively.

Investment allocation of the underlying assets within the Level 3 assets at December 31, 2012, are as follows:

Private equity:	
Buyout partnerships	71 %
Venture capital	24
Special situations	5
Real estate:	
Office buildings	68
Land	1
Multifamily	31

Investment allocation of the underlying assets within the Level 3 assets at December 31, 2011, are as follows:

Private equity:	
Buyout partnerships	68 %
Venture capital	25
Special situations	7
Real estate:	
Office buildings	86
Land	2
Multifamily	12

5. RETIREMENT AND PENSION PLANS

All AER full-time employees are eligible to participate in the retirement plan for employees of The United States Army Nonappropriated Fund (NAF). Employee and employer contributions are based on a percentage of salary. The employer contribution percentage was 7.6% for 2012 and 6.5% 2011. AER's contributions to the NAF retirement plan charged to expense were $138,277 and $120,539 during 2012 and 2011, respectively, and are included in the accompanying statements of activities as salaries and benefits. Participation in the NAF retirement plan began in 1966.

All full-time employees are eligible to participate in the Thrift Savings Plan, which was established under Section 403(b) of the Internal Revenue Code, and are fully vested. Employer contributions, after one year of employment, include a percentage of each employee's salary and a matching contribution equal to amounts contributed by an employee up to 4% of an employee's salary. AER's contributions to the Thrift Savings Plan were $124,282 and $108,902 during 2012 and 2011, respectively, and are included in the accompanying statements of activities as salaries and benefits.

6. GIFTS IN KIND

Gifts in kind are noncash contributions received from donors. AER receives in-kind gifts in the form of stocks, DS3 data line, office space, and furniture. Contributions revenue recognized for the DS3 data line and office space by AER for the year ended December 31, 2012, was $108,327 and $453,139, respectively, and for the year ended December 31, 2011, was $108,327 and $295,246, respectively.

The Department of Defense provides personnel to conduct the AER assistance program at military installations through their AER section. AER also receives contributions of certain office supplies and utility services. As the contributed services do not require specialized expertise and the value of the supplies and utilities is not determinable, contribution revenue has not been reflected in the accompanying financial statements for these items.

7. LINE OF CREDIT

In March of 2004, AER opened a line of credit in the amount of $25,000,000 with The Northern Trust Company. The line is secured by AER's investment portfolio also held at The Northern Trust Company. AER renewed the line of credit for an additional three years in 2011. The borrowings outstanding as of December 31, 2012 and 2011, was $4,997,848 and $9,997,848, respectively. The line is payable upon demand and based on its short-term nature its book value approximately equals its fair value as of December 31, 2012. AER incurred interest expense for the years ended December 31, 2012 and 2011, of $51,968 and $105,317, respectively, at average interest rates of 1.0117% and 1.0741% for the years ending December 31, 2012 and 2011, respectively, which are included under operating expenses in the statements of activities.

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SUPPLEMENTAL SCHEDULES

ARMY EMERGENCY RELIEF

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Program	Management and General	Fund Raising	Total
Grants	$ 7,043,078	$ -	$ -	$ 7,043,078
Children's scholarships	6,533,920			6,533,920
Spouse scholarships	2,001,285			2,001,285
Pentagon victims scholarships	6,585			6,585
Personal finance classes	902,826			902,826
Provision for uncollectible loans	2,777,373			2,777,373
Salaries and benefits	1,657,308	748,112	235,287	2,640,707
Payroll taxes	87,058	39,298	12,360	138,716
Professional services		115,368		115,368
Collection expenses	130,918			130,918
Custodian and investment counsel fees	25,587	975,754		1,001,341
Interest expense		51,968		51,968
Publicity expenses	58,023	8,897	21,614	88,534
Office administration	708,307	118,505	288,175	1,114,987
Bank fees	74,991	397		75,388
Information technology	655,781	231,402	87,689	974,872
Travel expense		22,673		22,673
Equipment depreciation	73,461	25,943	9,831	109,235
Insurance and blanket bond		42,398		42,398
Section training	63,931			63,931
Sundry office		25,310	13,338	38,648
Total expenses	$ 22,800,432	$ 2,406,025	$ 668,294	$ 25,874,751

See notes to supplemental schedules.

ARMY EMERGENCY RELIEF

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program	Management and General	Fund Raising	Total
Grants	$ 6,973,708	$ -	$ -	$ 6,973,708
Children's scholarships	6,180,807			6,180,807
Spouse scholarships	1,836,280			1,836,280
Pentagon victims scholarships	79,833			79,833
Personal finance classes	1,213,270			1,213,270
Provision for uncollectible loans	2,296,672			2,296,672
Salaries and benefits	1,543,109	727,341	158,878	2,429,328
Payroll taxes	83,688	39,446	8,617	131,751
Professional services		110,782		110,782
Collection expenses	142,739			142,739
Custodian and investment counsel fees	16,876	963,394		980,270
Interest expense		105,317		105,317
Campaign publicity expenses		13,069	10,302	23,371
Office administration	591,226	109,357	293,648	994,231
Bank fees	74,999	274		75,273
Information technology	198,069	74,174	21,792	294,035
Travel expense		14,067		14,067
Equipment depreciation	273,955	102,718	29,969	406,642
Insurance and blanket bond		42,703		42,703
Section training	152,924			152,924
Sundry office		24,350	16,725	41,075
Total expenses	$21,658,155	$2,326,992	$539,931	$24,525,078

See notes to supplemental schedules.

1. FUNCTIONAL EXPENSES

Expenses of AER are recorded on a functional basis. AER has three main services: program, management and general, and fundraising. Operating costs that are specifically identifiable with the administration of the program are charged to the program and those specifically identifiable to fund raising are charged to fundraising. Other operating costs that are shared among the three categories, but are not specifically identifiable, are allocated based on direct labor hours or direct labor dollars. For 2012, those percentages were: Direct labor hours-Program 67.25%, Management and General 23.75%, and Fund Raising 9.00%; Direct labor dollars-Program 62.76%, Management and General 28.33%, and Find Raising 8.91%.

Program and Supporting Services — AER's operations include the following program and supporting services:

Program (Assistance) — AER provides interest-free loans and grants to active component soldiers and family members, reserve component soldiers and family members on active duty more than 30 days, and retired soldiers and family members, including surviving spouses and orphans. These loans and grants are provided to meet immediate financial needs in an emergency situation. The program uses a streamlined application process to provide up to $1,500 loans to active duty army members to be used for emergency financial needs.

AER also provides scholarships to family members of active and retired soldiers, as well as offering personal financial management courses to active duty army members.

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

Fundraising — Fundraising activities include providing support materials for the AER annual campaign and publicizing and conducting other fundraising activities that may be involved with soliciting contributions from individuals and others.