

# Army Emergency Relief

Financial Statements as of and for the  
Years Ended December 31, 2013 and 2012,  
Supplemental Schedules for the Years Ended  
December 31, 2013 and 2012, 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 ("AER"), which comprise the statements of financial position as of December 31, 2013 and 2012, 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 AER'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 AER'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 AER as of December 31, 2013 and 2012, 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 17-18 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 AER'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*

July 15, 2014

# ARMY EMERGENCY RELIEF

## STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2013 AND 2012

	2013	2012
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 16,264,617	\$ 14,654,560
PLEDGES RECEIVABLE — Net of allowance for uncollectible pledges of \$108,869 and \$105,507, respectively	2,310,436	2,251,643
RECEIVABLE FROM SALE OF INVESTMENTS	1,007,334	944,834
INVESTMENTS — At fair value	270,889,149	244,911,344
ACCRUED INVESTMENT INCOME RECEIVABLE	844,881	716,593
LOANS RECEIVABLE — Net of allowance for doubtful loans of \$2,814,789 and \$2,972,366, respectively	45,497,740	45,758,783
PREPAID CHARGES AND OTHER ASSETS	290,163	365,911
OFFICE AND COMPUTER EQUIPMENT — Net of accumulated depreciation of \$726,417 and \$2,863,944, respectively	<u>6,406,435</u>	<u>3,777,209</u>
<b>TOTAL</b>	<b><u>\$ 343,510,755</u></b>	<b><u>\$ 313,380,877</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 1,640,433	\$ 675,355
Payable for purchase of investments	989,133	2,046,714
Line of credit		<u>4,997,848</u>
Total liabilities	<u>2,629,566</u>	<u>7,719,917</u>
<b>NET ASSETS:</b>		
Unrestricted	<u>328,719,060</u>	<u>293,048,061</u>
Temporarily restricted:		
Annual fund campaign contributions	2,310,436	2,251,643
Atlantik-Brücke Scholarship Fund		978,937
MAJ Hugh Boyd Casey Memorial Award	21,358	20,315
Pentagon Scholarship Fund	<u>8,029,543</u>	<u>7,561,212</u>
Total temporarily restricted net assets	<u>10,361,337</u>	<u>10,812,107</u>
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	<u>261,128</u>	<u>261,128</u>
Total permanently restricted net assets	<u>1,800,792</u>	<u>1,800,792</u>
Total net assets	<u>340,881,189</u>	<u>305,660,960</u>
<b>TOTAL</b>	<b><u>\$ 343,510,755</u></b>	<b><u>\$ 313,380,877</u></b>

See notes to financial statements.

# ARMY EMERGENCY RELIEF

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND LOSSES:</b>				
Annual fund campaign contributions	\$ 9,718,302	\$ 2,310,436	\$ -	\$ 12,028,738
Unsolicited contributions	464,612	31,391		496,003
Other income	577,530			577,530
Interest and dividends	6,035,989	166,282		6,202,271
Realized gain on investments	15,409,881	424,521		15,834,402
Unrealized gain on investments	26,037,850			26,037,850
Net assets released from restrictions — satisfaction of program restrictions	<u>3,383,400</u>	<u>(3,383,400)</u>		<u>-</u>
Total revenues and losses	<u>61,627,564</u>	<u>(450,770)</u>	<u>-</u>	<u>61,176,794</u>
<b>EXPENSES:</b>				
Operating:				
Grants and scholarships	16,198,785			16,198,785
Provision for uncollectibles	2,526,695			2,526,695
Custodian and investment counsel fees	<u>1,094,517</u>			<u>1,094,517</u>
Total operating expenses	<u>19,819,997</u>	<u>-</u>	<u>-</u>	<u>19,819,997</u>
Administrative:				
Salaries, retirement, and benefits	2,763,417			2,763,417
Payroll taxes	142,442			142,442
Automation	1,035,700			1,035,700
Equipment depreciation	326,148			326,148
Professional services	201,267			201,267
Insurance and blanket bond	61,998			61,998
Postage	123,111			123,111
Printing	216,102			216,102
Bank fees	85,634			85,634
Leases, maintenance, and maintenance contracts	743,370			743,370
Office supplies and equipment	31,824			31,824
Campaign publicity expense	42,973			42,973
Travel	32,519			32,519
Section training conference	236,654			236,654
Miscellaneous other	<u>93,409</u>			<u>93,409</u>
Total administrative expenses	<u>6,136,568</u>	<u>-</u>	<u>-</u>	<u>6,136,568</u>
Total expenses	<u>25,956,565</u>	<u>-</u>	<u>-</u>	<u>25,956,565</u>
CHANGE IN NET ASSETS	35,670,999	(450,770)	-	35,220,229
NET ASSETS — Beginning of year	<u>293,048,061</u>	<u>10,812,107</u>	<u>1,800,792</u>	<u>305,660,960</u>
NET ASSETS — End of year	<u>\$ 328,719,060</u>	<u>\$ 10,361,337</u>	<u>\$ 1,800,792</u>	<u>\$ 340,881,189</u>

See notes to financial statements.

# ARMY EMERGENCY RELIEF

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND LOSSES:</b>				
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	<u>2,796,999</u>	<u>(2,796,999)</u>		<u>-</u>
Total revenues and losses	<u>41,547,418</u>	<u>45,412</u>	<u>-</u>	<u>41,592,830</u>
<b>EXPENSES:</b>				
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	<u>902,826</u>			<u>902,826</u>
Total operating expenses	<u>20,318,376</u>	<u>-</u>	<u>-</u>	<u>20,318,376</u>
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
Section training conference	21,659			21,659
Travel	22,673			22,673
Miscellaneous other	<u>88,814</u>			<u>88,814</u>
Total administrative expenses	<u>5,556,375</u>	<u>-</u>	<u>-</u>	<u>5,556,375</u>
Total expenses	<u>25,874,751</u>	<u>-</u>	<u>-</u>	<u>25,874,751</u>
CHANGE IN NET ASSETS	15,672,667	45,412	-	15,718,079
NET ASSETS — Beginning of year	<u>277,375,394</u>	<u>10,766,695</u>	<u>1,800,792</u>	<u>289,942,881</u>
NET ASSETS — End of year	<u>\$ 293,048,061</u>	<u>\$ 10,812,107</u>	<u>\$ 1,800,792</u>	<u>\$ 305,660,960</u>

See notes to financial statements.

# ARMY EMERGENCY RELIEF

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Loan repayments	\$ 56,326,333	\$ 60,004,159
Unsolicited contributions and bequests	249,659	2,106,734
Annual fund campaign	11,971,595	9,269,043
Interest income	3,183,772	3,314,948
Dividends	<u>2,890,212</u>	<u>3,484,545</u>
Total cash receipts	<u>74,621,571</u>	<u>78,179,429</u>
Cash disbursements for:		
Loans	(58,241,893)	(61,562,686)
Grants and scholarships	(16,117,961)	(15,578,283)
Personal financial management class		(902,826)
Pentagon victims grants	(80,823)	(6,585)
Administrative expenses	(4,297,352)	(4,749,157)
Interest expense		(51,968)
Investment expenses	<u>(1,094,517)</u>	<u>(1,074,341)</u>
Total cash disbursements	<u>(79,832,546)</u>	<u>(83,925,846)</u>
Net cash used in operating activities	<u>(5,210,975)</u>	<u>(5,746,417)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash receipts for — investment sales	<u>153,774,135</u>	<u>139,223,546</u>
Total cash receipts	<u>153,774,135</u>	<u>139,223,546</u>
Cash disbursements for:		
Purchase of office and computer equipment	(2,955,488)	(2,666,599)
Investment purchases	<u>(138,999,767)</u>	<u>(126,950,899)</u>
Total cash disbursements	<u>(141,955,255)</u>	<u>(129,617,498)</u>
Net cash provided by investing activities	<u>11,818,880</u>	<u>9,606,048</u>
CASH FLOWS FROM FINANCING ACTIVITIES — Cash		
disbursement — repayment of line of credit	<u>(4,997,848)</u>	<u>(5,000,000)</u>
Cash used in financing activities	<u>(4,997,848)</u>	<u>(5,000,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,610,057	(1,140,369)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>14,654,560</u>	<u>15,794,929</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 16,264,617</u>	<u>\$ 14,654,560</u>

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# ARMY EMERGENCY RELIEF

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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	2013	2012
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED USED IN OPERATING ACTIVITIES:		
Change in net assets	\$ 35,220,229	\$ 15,718,079
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	326,148	109,235
Change in provision for uncollectible loans	(157,464)	2,777,373
Net realized and unrealized gains on investments	(41,872,252)	(22,828,419)
Decrease (increase) in assets:		
Pledges receivable	(58,793)	165,041
Accrued investment income receivable	(128,288)	166,245
Gross loans receivable	418,620	(1,917,488)
Prepaid charges and other assets	75,748	(50,129)
Increase in liabilities — accounts payable and accrued liabilities	<u>965,077</u>	<u>113,646</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (5,210,975)</u>	<u>\$ (5,746,417)</u>

See notes to financial statements.

(Concluded)

# ARMY EMERGENCY RELIEF

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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### 1. ORGANIZATION

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* — Unrestricted net assets are 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* — Temporarily restricted net assets are net assets that 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* — Permanently restricted net assets are net assets that 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, 2013 and 2012, 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, 2013 and 2012, is \$2,310,436 and \$2,251,643, 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 maximize the use of observable inputs and minimize the use of unobservable inputs.

As of December 31, 2013 and 2012, all investments were held in a portfolio managed by The Northern Trust Company.

**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 3 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. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in financial statements. FASB 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 AER's financial statements for the years ended December 31, 2013 and 2012.

**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** — AER has evaluated all subsequent events that occurred after the statement of financial position date and through the date that its audited financial statements were available to be issued on July 15, 2014.

### 3. INVESTMENT EARNINGS

Investment earnings for the years ended December 31, 2013 and 2012, consist of the following:

	2013	2012
Interest and dividends:		
U.S. Treasury and federal agencies	\$ 756,010	\$ 781,630
Corporate bonds and notes	2,108,924	2,147,300
Preferred and common stock	2,980,011	3,390,025
Real estate	342,494	266,552
Cash and cash equivalents	<u>14,832</u>	<u>47,741</u>
Total interest and dividends	<u>6,202,271</u>	<u>6,633,248</u>
Unrealized gains (losses) on investments:		
U.S. Treasury and federal agencies	(1,448,429)	(466,591)
Corporate bonds and notes	(746,199)	1,616,340
Preferred and common stock	23,322,108	18,643,086
Private equity funds	4,755,744	1,660,263
Real estate	<u>154,626</u>	<u>201,428</u>
Net unrealized gains on investments	<u>26,037,850</u>	<u>21,654,526</u>
Realized gains (losses) on investments:		
U.S. Treasury and federal agencies	(217,005)	497,526
Corporate bonds and notes	478,675	980,415
Preferred and common stock	15,666,049	(279,443)
Real estate	(94,027)	(24,605)
Other assets	<u>710</u>	<u></u>
Net realized gains on investments	<u>15,834,402</u>	<u>1,173,893</u>
Total investment earnings	<u>\$48,074,523</u>	<u>\$29,461,667</u>

### 4. FAIR VALUE MEASUREMENTS

AER measures its financial assets that are required to be measured at fair value on a recurring basis under FASB ASC Topic 820-10, *Fair Value Measurements and Disclosures*. 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 Topic 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 Topic 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 Topic 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 determines the fair values of certain investments as Level 3, including private equity funds, a real estate fund and certain fixed-income securities. The fair values 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, 2013 and 2012. 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, 2013, are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	<u>\$ 15,618,729</u>	<u>\$ 645,888</u>	<u>\$ -</u>	<u>\$ 16,264,617</u>
Investments — U.S. Treasury and federal agencies	<u>34,725</u>	<u>32,891,413</u>	<u>-</u>	<u>32,926,138</u>
Corporate bonds and notes:				
Corporate bonds		28,500,587	46,531	28,547,118
Asset-backed securities		2,471,445	193,900	2,665,345
Commercial mortgage-backed securities		3,673,117		3,673,117
Municipal/provincial bonds		1,030,761	50,000	1,080,761
Non-government-backed C.M.O.s		270,234		270,234
Convertible bonds		<u>3,010,981</u>		<u>3,010,981</u>
Total corporate bonds and notes	<u>-</u>	<u>38,957,125</u>	<u>290,431</u>	<u>39,247,556</u>
Preferred and common stock:				
Domestic preferred stock		282,834		282,834
International preferred stock			4,226	4,226
Domestic common stock	123,472,786	27,887		123,500,673
International common stock	<u>47,217,194</u>			<u>47,217,194</u>
Total preferred and common stock	<u>170,689,980</u>	<u>310,721</u>	<u>4,226</u>	<u>171,004,927</u>
Private equity funds			<u>23,824,277</u>	<u>23,824,277</u>
Real estate			<u>3,886,251</u>	<u>3,886,251</u>
Total investments at fair value	<u>170,724,705</u>	<u>72,159,259</u>	<u>28,005,185</u>	<u>270,889,149</u>
Total assets at fair value	<u>\$ 186,343,434</u>	<u>\$ 72,805,147</u>	<u>\$ 28,005,185</u>	<u>\$ 287,153,766</u>

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

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

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 Topic 820-10-05-1 using significant Level 3 inputs for the years ended December 31, 2013 and 2012. Reconciliation of fair value measurements using significant Level 3 inputs for the year ended December 31, 2013, are as follows:

	<b>Private Equity</b>	<b>Real Estate</b>	<b>Other</b>
Balance — January 1, 2013	\$ 23,217,035	\$ 3,523,650	\$ 91,473
Realized and unrealized gains	4,755,744	464,065	203,184
Additional investments/purchases	<u>(4,148,502)</u>	<u>(101,464)</u>	<u>                    </u>
Balance — December 31, 2013	<u>\$ 23,824,277</u>	<u>\$ 3,886,251</u>	<u>\$ 294,657</u>

Reconciliation of fair value measurements using significant Level 3 inputs for the year ended December 31, 2012, are as follows:

	<b>Private Equity</b>	<b>Real Estate</b>	<b>Other</b>
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	<u>1,011,400</u>	<u>235,919</u>	<u>          </u>
Balance — December 31, 2012	<u>\$23,217,035</u>	<u>\$3,523,650</u>	<u>\$ 91,473</u>

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.

In situations where the NAV is not available as of AER's measurement date, AER will use the most recently available NAV as the starting point and make adjustments for changes in market conditions to arrive at fair value as of the measurement date.

For the years ended December 31, 2013 and 2012, AER had outstanding future funding commitments of approximately \$3.12 million and \$4.82 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 partnerships 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 twelfth anniversary of 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 partnerships would be liquidated in December 2016 with an option to extend the liquidation period to December 2018.

The private-equity funds represent approximately 85% and 86% of Level 3 assets as of December 31, 2013 and 2012, respectively, and include investments in buyout partnerships, venture capital, special situations, portfolio funds, and marketable securities. The real estate fund represents approximately 14% and 13% of the Level 3 assets as of December 31, 2013 and 2012, respectively, and includes investments in office buildings, hotels, land, and multifamily housing units. The remaining 1% of the Level 3 assets are composed of fixed-income securities, such as corporate bonds and asset-backed securities.



Investment allocation of the underlying assets within the Level 3 assets at December 31, 2013, are as follows:

Private equity:	
Buyout partnerships	74 %
Venture capital	22
Special situations	4
Real estate:	
Office buildings	56
Land	1
Multifamily	43

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

## 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 2013 and 2012. AER's contributions to the NAF retirement plan charged to expense were \$156,279 and \$138,277 during 2013 and 2012, 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 \$118,814 and \$124,282 during 2013 and 2012, 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, 2013, was \$108,327 and \$453,139, respectively, and for the year ended December 31, 2012, was \$108,327 and \$453,139, respectively.

The Department of Defense provides personnel to conduct the AER assistance program at military installations through its 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. The borrowings outstanding as of December 31, 2013 and 2012, were \$0 and \$4,997,848, 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, 2013. AER incurred interest expense for the years ended December 31, 2013 and 2012, of \$4,214 and \$51,968, respectively, at an average interest rate of 1.0117%, which is included under operating expenses in the statements of activities. The line of credit expired in March 2014. AER renewed The Northern Trust Company line of credit with similar terms through November 2016 in the amount of \$25,000,000.

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## **SUPPLEMENTAL SCHEDULES**

# ARMY EMERGENCY RELIEF

## SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2013

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	Program	Management and General	Fund Raising	Total
Grants	\$ 6,689,179	\$ -	\$ -	\$ 6,689,179
Children's scholarships	7,240,352			7,240,352
Spouse scholarships	2,188,430			2,188,430
Pentagon victims scholarships	80,823			80,823
Provision for uncollectible loans	2,526,695			2,526,695
Salaries and benefits	1,739,175	795,003	229,239	2,763,417
Payroll taxes	89,696	40,924	11,822	142,442
Professional services		126,500		126,500
Collection expenses	74,767			74,767
Custodian and investment counsel fees	6,848	1,087,669		1,094,517
Publicity expenses	25,502	6,583	10,888	42,973
Office administration	747,899	131,947	291,608	1,171,454
Bank fees	84,605	1,029		85,634
Information technology	707,111	208,659	81,572	997,342
Travel expense		32,519		32,519
Equipment depreciation	254,109	22,801	49,239	326,149
Insurance and blanket bond		61,998		61,998
Section training	275,013			275,013
Sundry office		20,163	16,198	36,361
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 22,730,204</u>	<u>\$ 2,535,795</u>	<u>\$ 690,566</u>	<u>\$ 25,956,565</u>

See notes to 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	<u>\$ 22,800,432</u>	<u>\$ 2,406,025</u>	<u>\$ 668,294</u>	<u>\$ 25,874,751</u>

See notes to supplemental schedules.

# ARMY EMERGENCY RELIEF

## NOTES TO SUPPLEMENTAL SCHEDULES FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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### 1. FUNCTIONAL EXPENSES

The expenses of Army Emergency Relief (AER) are recorded on a functional basis. AER has three main services: program, management and general, and fund raising. 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 fund raising. 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 2013, those percentages were: Direct labor hours-Program 68.16%, Management and General 22.89%, and Fund Raising 8.95%; Direct labor dollars- Program 62.97%, Management and General 28.73%, and Fund Raising 8.30%. 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 Fund 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.

*Fund Raising* — Fund raising activities include providing support materials for the AER annual campaign and publicizing and conducting other fund raising activities that may be involved with soliciting contributions from individuals and others.