# Army Emergency Relief

Financial Statements as of and for the
Years Ended December 31, 2014 and 2013,
Supplemental Schedules for the Years Ended
December 31, 2014 and 2013, and
Independent Auditors' Report

## ARMY EMERGENCY RELIEF

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Deloitte.

**Deloitte & Touche LLP**
7900 Tysons One Place
Suite 800
McLean, VA 22102-5971
USA

Tel: +1 703 251 1000
www.deloitte.com

## 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, 2014 and 2013, 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, 2014 and 2013, 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 18-19 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 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

April 30, 2015

# ARMY EMERGENCY RELIEF

## STATEMENTS OF FINANCIAL POSITION
## AS OF DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 15,031,387 | $ 16,264,617 |
| Pledges receivable—Net of allowance for uncollectible pledges of $106,504 and $108,869, respectively | 2,246,569 | 2,310,436 |
| Receivable from sale of investments | 753,269 | 1,007,334 |
| Investments—At fair value | 270,638,258 | 270,889,149 |
| Accrued investment income receivable | 1,059,682 | 844,881 |
| Loans receivable—Net of allowance for doubtful loans of $4,048,265 and $2,814,789, respectively | 46,743,120 | 45,497,740 |
| Prepaid charges and other assets | 138,380 | 290,163 |
| Office equipment, computer hardware and software—Net of accumulated depreciation of $1,766,664 and $952,955, respectively | 8,169,575 | 6,406,435 |
| TOTAL ASSETS | $ 344,780,240 | $ 343,510,755 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES: | | |
| Accounts payable and accrued liabilities | $ 1,034,008 | $ 1,640,433 |
| Payable for purchase of investments | 126,939 | 989,133 |
| Total liabilities | 1,160,947 | 2,629,566 |
| NET ASSETS: | | |
| Unrestricted | 331,045,051 | 328,719,060 |
| Temporarily restricted: | | |
| Annual fund campaign contributions | 2,246,569 | 2,310,436 |
| MAJ Hugh Boyd Casey Memorial Award | 23,020 | 21,358 |
| Pentagon Scholarship Fund | 8,503,861 | 8,029,543 |
| Total temporarily restricted net assets | 10,773,450 | 10,361,337 |
| 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 | 343,619,293 | 340,881,189 |
| TOTAL LIABILITIES AND NET ASSETS | $ 344,780,240 | $ 343,510,755 |

See notes to financial statements.

## ARMY EMERGENCY RELIEF

### STATEMENT OF ACTIVITIES
### FOR THE YEAR ENDED DECEMBER 31, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| REVENUES AND LOSSES: | | | | |
| Annual fund campaign contributions | $ 7,159,786 | $ 2,246,569 | $ - | $ 9,406,355 |
| Unsolicited contributions | 273,077 | 15,000 | | 288,077 |
| Other income | 644,240 | | | 644,240 |
| Interest and dividends | 6,590,430 | 191,872 | | 6,782,302 |
| Realized gain on investments | 16,486,749 | 479,989 | | 16,966,738 |
| Unrealized loss on investments | (4,425,519) | | | (4,425,519) |
| Net assets released from restrictions—satisfaction of program restrictions | 2,521,316 | (2,521,316) | | |
| Total revenues and losses | 29,250,079 | 412,114 | - | 29,662,193 |
| EXPENSES: | | | | |
| Operating: | | | | |
| Grants and scholarships | 16,017,676 | | | 16,017,676 |
| Provision for uncollectibles | 2,668,833 | | | 2,668,833 |
| Custodian and investment counsel fees | 1,214,119 | | | 1,214,119 |
| Total operating expenses | 19,900,628 | - | - | 19,900,628 |
| Administrative: | | | | |
| Salaries, retirement, and benefits | 2,771,988 | | | 2,771,988 |
| Payroll taxes | 145,192 | | | 145,192 |
| Automation | 1,021,278 | | | 1,021,278 |
| Equipment depreciation | 847,428 | | | 847,428 |
| Professional services | 193,509 | | | 193,509 |
| Insurance and blanket bond | 71,398 | | | 71,398 |
| Postage | 141,784 | | | 141,784 |
| Printing | 260,614 | | | 260,614 |
| Bank fees | 74,494 | | | 74,494 |
| Leases, maintenance, and maintenance contracts | 855,481 | | | 855,481 |
| Office supplies and equipment | 36,933 | | | 36,933 |
| Campaign publicity expense | 20,967 | | | 20,967 |
| Travel | 26,030 | | | 26,030 |
| Miscellaneous other | 556,365 | | | 556,365 |
| Total administrative expenses | 7,023,461 | - | - | 7,023,461 |
| Total expenses | 26,924,089 | - | - | 26,924,089 |
| CHANGE IN NET ASSETS | 2,325,990 | 412,114 | | 2,738,104 |
| NET ASSETS—Beginning of year | 328,719,060 | 10,361,337 | 1,800,792 | 340,881,189 |
| NET ASSETS—End of year | $ 331,045,050 | $ 10,773,451 | $ 1,800,792 | $ 343,619,293 |

See notes to financial statements.

# ARMY EMERGENCY RELIEF

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

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| REVENUES AND LOSSES: | | | | |
| 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 | 3,383,400 | (3,383,400) | | - |
| Total revenues and losses | 61,627,564 | (450,770) | - | 61,176,794 |
| EXPENSES: | | | | |
| Operating: | | | | |
| Grants and scholarships | 16,198,785 | | | 16,198,785 |
| Provision for uncollectibles | 2,526,695 | | | 2,526,695 |
| Custodian and investment counsel fees | 1,094,517 | | | 1,094,517 |
| Total operating expenses | 19,819,997 | - | - | 19,819,997 |
| 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 | 93,409 | | | 93,409 |
| Total administrative expenses | 6,136,568 | - | - | 6,136,568 |
| Total expenses | 25,956,565 | - | - | 25,956,565 |
| CHANGE IN NET ASSETS | 35,670,999 | (450,770) | - | 35,220,229 |
| NET ASSETS—Beginning of year | 293,048,061 | 10,812,107 | 1,800,792 | 305,660,960 |
| NET ASSETS—End of year | $ 328,719,060 | $ 10,361,337 | $ 1,800,792 | $ 340,881,189 |

See notes to financial statements.

# ARMY EMERGENCY RELIEF

## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash receipts from: | | |
| Loan repayments | $ 53,648,630 | $ 56,326,333 |
| Unsolicited contributions and bequests | 81,775 | 249,659 |
| Annual fund campaign | 9,471,702 | 11,971,595 |
| Interest income | 3,166,658 | 3,183,772 |
| Dividends | 3,400,843 | 2,890,212 |
| Total cash receipts | 69,769,608 | 74,621,571 |
| Cash disbursements for: | | |
| Loans | (57,288,164) | (58,241,893) |
| Grants and scholarships | (15,864,544) | (16,117,961) |
| Pentagon victims grants | (153,131) | (80,823) |
| Administrative expenses | (6,056,292) | (4,297,352) |
| Investment expenses | (1,214,119) | (1,094,517) |
| Total cash disbursements | (80,576,250) | (79,832,546) |
| Net cash used in operating activities | (10,806,642) | (5,210,975) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Cash receipts for—investment sales | 169,888,553 | 153,774,135 |
| Total cash receipts | 169,888,553 | 153,774,135 |
| Cash disbursements for: | | |
| Purchase of office equipment, computer hardware and software | (2,610,567) | (2,955,488) |
| Investment purchases | (157,704,574) | (138,999,767) |
| Total cash disbursements | (160,315,141) | (141,955,255) |
| Net cash provided by investing activities | 9,573,412 | 11,818,880 |
| CASH FLOWS FROM FINANCING ACTIVITIES—Cash disbursement—repayment of line of credit | | (4,997,848) |
| Cash used in financing activities | - | (4,997,848) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (1,233,230) | 1,610,057 |
| CASH AND CASH EQUIVALENTS—Beginning of year | 16,264,617 | 14,654,560 |
| CASH AND CASH EQUIVALENTS—End of year | $ 15,031,387 | $ 16,264,617 |

(Continued)

## ARMY EMERGENCY RELIEF

### STATEMENTS OF CASH FLOWS
### FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Change in net assets | $ 2,738,104 | $ 35,220,229 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 847,428 | 326,148 |
| Net realized and unrealized gains on investments | (12,541,219) | (41,872,252) |
| Decrease (increase) in assets: | | |
| Pledges receivable | 63,867 | (58,793) |
| Accrued investment income receivable | (214,801) | (128,288) |
| Gross loans receivable | (2,478,856) | 418,620 |
| Allowance for loan losses | 1,233,476 | (157,464) |
| Prepaid charges and other assets | 151,784 | 75,748 |
| (Decrease) increase in liabilities—accounts payable and accrued liabilities | (606,425) | 965,077 |
| NET CASH USED IN OPERATING ACTIVITIES | $ (10,806,642) | $ (5,210,975) |

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 the time of emergency needs.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. 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 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 subject to donor-imposed stipulations that are permanent, with investment income generated by those net assets being 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, 2014 and 2013, 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, 2014 and 2013, is $2,246,569 and $2,310,436, 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, 2014 and 2013, 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, 2014 and 2013.

**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 April 30, 2015.

## 3. INVESTMENT EARNINGS

Investment earnings for the years ended December 31, 2014 and 2013, consist of the following:

| | 2014 | 2013 |
|---|---|---|
| Interest and dividends: | | |
| US Treasury and federal agencies | $ 675,939 | $ 756,010 |
| Corporate bonds and notes | 2,459,766 | 2,108,924 |
| Preferred and common stock | 3,456,464 | 2,980,011 |
| Real estate | 168,825 | 342,494 |
| Cash and cash equivalents | 21,308 | 14,832 |
| Total interest and dividends | 6,782,302 | 6,202,271 |
| Unrealized gains (losses) on investments: | | |
| US Treasury and federal agencies | 825,569 | (1,448,429) |
| Corporate bonds and notes | (646,626) | (746,199) |
| Preferred and common stock | (8,417,284) | 23,322,108 |
| Private equity funds | 2,238,071 | 4,755,744 |
| Real estate | 1,574,751 | 154,626 |
| Net unrealized (losses) gains on investments | (4,425,519) | 26,037,850 |
| Realized gains (losses) on investments: | | |
| US Treasury and federal agencies | 199,833 | (217,005) |
| Corporate bonds and notes | 925,668 | 478,675 |
| Preferred and common stock | 16,055,077 | 15,666,049 |
| Real estate | (214,128) | (94,027) |
| Other assets | 288 | 710 |
| Net realized gains on investments | 16,966,738 | 15,834,402 |
| Total investment earnings | $ 19,323,521 | $ 48,074,523 |

## 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 Topic 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 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, 2014 and 2013. 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, 2014, are as follows:

| | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Assets: | | | | |
| Cash and cash equivalents | $ 14,855,405 | $ 175,982 | $ - | $ 15,031,387 |
| Investments—U.S. Treasury and federal agencies | | 25,035,321 | | 25,035,321 |
| Corporate bonds and notes: | | | | |
| Corporate bonds | | 37,085,318 | | 37,085,318 |
| Asset-backed securities | | 8,439,643 | 61,884 | 8,501,527 |
| Commercial mortgage-backed securities | | 7,125,878 | | 7,125,878 |
| Municipal/provincial bonds | | 1,124,929 | 50,000 | 1,174,929 |
| Non-government-backed collateralized mortgage obligations | | 496,025 | | 496,025 |
| Convertible bonds | | 1,407,008 | | 1,407,008 |
| Total corporate bonds and notes | - | 55,678,801 | 111,884 | 55,790,685 |
| Preferred and common stock: | | | | |
| Domestic preferred stock | | 304,707 | | 304,707 |
| Domestic common stock | 118,404,713 | 70,997 | | 118,475,710 |
| International common stock | 45,471,859 | | | 45,471,859 |
| Total preferred and common stock | 163,876,572 | 375,704 | - | 164,252,276 |
| Private equity funds | | | 20,881,468 | 20,881,468 |
| Real estate | | | 4,678,508 | 4,678,508 |
| Total investments at fair value | 163,876,572 | 81,089,826 | 25,671,860 | 270,638,258 |
| Total assets at fair value | $ 178,731,977 | $ 81,265,808 | $ 25,671,860 | $ 285,669,645 |

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 | $ 15,618,729 | $ 645,888 | $ - | $ 16,264,617 |
| Investments—U.S. Treasury and federal agencies | 34,725 | 32,891,413 | | 32,926,138 |
| 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 collateralized mortgage obligations | | 270,234 | | 270,234 |
| Convertible bonds | | 3,010,981 | | 3,010,981 |
| Total corporate bonds and notes | - | 38,957,125 | 290,431 | 39,247,556 |
| 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 | 47,217,194 | | | 47,217,194 |
| Total preferred and common stock | 170,689,980 | 310,721 | 4,226 | 171,004,927 |
| Private equity funds | | | 23,824,277 | 23,824,277 |
| Real estate | | | 3,886,251 | 3,886,251 |
| Total investments at fair value | 170,724,705 | 72,159,259 | 28,005,185 | 270,889,149 |
| Total assets at fair value | $ 186,343,434 | $ 72,805,147 | $ 28,005,185 | $ 287,153,766 |

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 820-10-50-1 using significant Level 3 inputs for the years ended December 31, 2014 and 2013. Reconciliation of fair value measurements using significant Level 3 inputs for the year ended December 31, 2014, is as follows:

| | Private Equity | Real Estate | Other | Total |
|---|---|---|---|---|
| Balance—January 1, 2014 | $ 23,824,277 | $ 3,886,251 | $ 294,657 | $ 28,005,185 |
| Realized and unrealized gains (losses) | 2,239,105 | 1,501,490 | (182,773) | 3,557,822 |
| Capital distributions, net | (5,181,914) | (709,233) | | (5,891,147) |
| Balance—December 31, 2014 | $ 20,881,468 | $ 4,678,508 | $ 111,884 | $ 25,671,860 |

Reconciliation of fair value measurements using significant Level 3 inputs for the year ended December 31, 2013, is as follows:

| | Private Equity | Real Estate | Other | Total |
|---|---|---|---|---|
| Balance—January 1, 2013 | $23,217,035 | $3,523,650 | $ 91,473 | $26,832,158 |
| Realized and unrealized gains | 4,755,744 | 464,065 | 203,184 | 5,422,993 |
| Capital distributions, net | (4,148,502) | (101,464) | | (4,249,966) |
| Balance—December 31, 2013 | $23,824,277 | $3,886,251 | $294,657 | $28,005,185 |

FASB ASC Topic 820-10 contains measurement provisions for certain investments that do not have readily determinable fair values. FASB ASC Topic 820-10-35-59 permits, as a practical expedient, the entity to use the investment's net asset value (NAV) per share to measure the fair value of the investment provided that the NAV is calculated as of the reporting entity's measurement date. FASB ASC Topic 820-10 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 the unfunded commitments, and the description of the investments strategies.

For the years ended December 31, 2014 and 2013, AER had outstanding future funding commitments of approximately $2.5 million and $3.12 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 81% and 85% of Level 3 assets as of December 31, 2014 and 2013, respectively, and include investments in buyout partnerships, venture capital, special situations, portfolio funds, and marketable securities. The real estate fund represents approximately 18% and 14% of the Level 3 assets as of December 31, 2014 and 2013, 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.

Investment allocations of the underlying assets within the Level 3 assets at December 31, 2014, are as follows:

| | |
|---|---|
| Private equity: | |
| Buyout partnerships | 59 % |
| Venture capital | 37 |
| Special situations | 4 |
| Real estate: | |
| Office buildings | 22 |
| Land | 1 |
| Multifamily | 77 |

Investment allocations 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 |

## 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 2014 and 7.6% for 2013. AER's contributions to the NAF retirement plan charged to expense were $158,176 and $156,279 during 2014 and 2013, 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 $133,957 and $118,814 during 2014 and 2013, 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, 2014, was $113,743 and $470,115, respectively, and for the year ended December 31, 2013, was $108,327 and $453,139, 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 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 did not have any borrowings outstanding as of December 31, 2014 and 2013. 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, 2014. AER incurred interest expense for the years ended December 31, 2014 and 2013, of

$0 and $4,214, respectively, at an average interest rate of 1.0117% for the year ended December 31, 2013, which is included under operating expenses in the statements of activities. 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.

* * * * * *

# SUPPLEMENTAL SCHEDULES

# ARMY EMERGENCY RELIEF

## SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES
## FOR THE YEAR ENDED DECEMBER 31, 2014

| | Program | Management and General | Fund Raising | Total |
|---|---|---|---|---|
| Grants | $ 7,503,867 | $ - | $ - | $ 7,503,867 |
| Children's scholarships | 6,971,945 | | | 6,971,945 |
| Spouse scholarships | 1,388,732 | | | 1,388,732 |
| Pentagon victims scholarships | 153,131 | | | 153,131 |
| Provision for uncollectible loans | 2,668,833 | | | 2,668,833 |
| Salaries, retirement and benefits | 1,730,742 | 804,637 | 236,609 | 2,771,988 |
| Payroll taxes | 90,653 | 42,130 | 12,409 | 145,192 |
| Professional services | | 143,871 | | 143,871 |
| Collection expenses | 49,637 | | | 49,637 |
| Custodian and investment counsel fees | 39,128 | 1,174,991 | | 1,214,119 |
| Publicity expenses | | 13,414 | 7,553 | 20,967 |
| Office administration | 1,005,838 | 231,771 | 340,681 | 1,578,290 |
| Bank fees | 76,729 | | | 76,729 |
| Information technology | 715,172 | 185,042 | 72,391 | 972,605 |
| Travel expense | | 26,030 | | 26,030 |
| Equipment depreciation | 676,295 | 33,081 | 138,052 | 847,428 |
| Insurance and blanket bond | | 71,398 | | 71,398 |
| Section training | 283,440 | | | 283,440 |
| Sundry office | | 20,000 | 15,887 | 35,887 |
| Total expenses | $ 23,354,142 | $ 2,746,365 | $ 823,582 | $ 26,924,089 |

See note to supplemental schedules.

# ARMY EMERGENCY RELIEF

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

| | 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, retirement 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 |
| Total expenses | $ 22,730,204 | $ 2,535,795 | $ 690,566 | $ 25,956,565 |

See note to supplemental schedules.

## 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 2014 and 2013, those percentages were Direct labor hours-Program 68.16%, Management and General 22.89%, and Fund Raising 8.95%.

**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 fundraising activities that may be involved with soliciting contributions from individuals and others.