

Army Emergency Relief

Financial Statements as of and for the
Years Ended December 31, 2015 and 2014,
Supplemental Schedules for the Years Ended
December 31, 2015 and 2014, 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, 2015 and 2014, 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 auditor considers 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, 2015 and 2014, 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 supplemental 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 19, 2016

ARMY EMERGENCY RELIEF

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 12,110,301	\$ 15,031,387
PLEDGES RECEIVABLE—Net of allowance for uncollectible pledges of \$249,055 and \$106,504, respectively	1,792,017	2,246,569
RECEIVABLE FROM SALE OF INVESTMENTS	115,952	753,269
INVESTMENTS—At fair value	255,587,850	270,638,258
ACCRUED INVESTMENT INCOME RECEIVABLES	842,634	1,059,682
LOANS RECEIVABLE—Net of allowance for doubtful loans of \$2,666,562 and \$4,048,265, respectively	45,087,225	46,743,120
PREPAID CHARGES AND OTHER ASSETS	298,263	138,380
OFFICE EQUIPMENT, COMPUTER HARDWARE AND SOFTWARE—Net of accumulated depreciation of \$2,597,041 and \$1,766,664, respectively	<u>7,440,862</u>	<u>8,169,575</u>
TOTAL ASSETS	<u>\$ 323,275,104</u>	<u>\$ 344,780,240</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 1,194,057	\$ 1,034,008
Payables for purchase of investments	<u>67,460</u>	<u>126,939</u>
Total liabilities	<u>1,261,517</u>	<u>1,160,947</u>
NET ASSETS:		
Unrestricted	<u>309,790,569</u>	<u>331,045,051</u>
Temporarily restricted:		
Annual fund campaign contributions	1,792,017	2,246,569
MAJ Hugh Boyd Casey Memorial Award	23,633	23,020
Pentagon Scholarship Fund	<u>8,606,576</u>	<u>8,503,861</u>
Total temporarily restricted net assets	<u>10,422,226</u>	<u>10,773,450</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>322,013,587</u>	<u>343,619,293</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 323,275,104</u>	<u>\$ 344,780,240</u>

See notes to financial statements.

ARMY EMERGENCY RELIEF

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND LOSSES:				
Annual fund campaign contributions	\$ 6,798,783	\$ 1,792,017	\$ -	\$ 8,590,800
Unsolicited contributions	233,174	17,652		250,826
Other income	729,078	117		729,195
Interest and dividends	6,550,527	201,202		6,751,729
Realized gain on investments	6,948,632	213,430		7,162,062
Unrealized loss on investments	(12,381,380)			(12,381,380)
Net assets released from restrictions—satisfaction of program restrictions	2,575,643	(2,575,643)		-
Total revenues and losses	11,454,457	(351,225)	-	11,103,232
EXPENSES:				
Operating:				
Grants and scholarships	17,189,697			17,189,697
Provision for uncollectibles	5,130,953			5,130,953
Custodian and investment counsel fees	1,227,810			1,227,810
Total operating expenses	23,548,460	-	-	23,548,460
Administrative:				
Salaries, retirement, and benefits	3,038,027			3,038,027
Payroll taxes	158,141			158,141
Automation	2,354,244			2,354,244
Equipment depreciation	1,052,546			1,052,546
Professional services	216,418			216,418
Insurance and blanket bond	76,713			76,713
Postage	140,269			140,269
Printing	438,789			438,789
Bank fees	80,811			80,811
Leases, maintenance, and maintenance contracts	1,046,603			1,046,603
Office supplies and equipment	41,328			41,328
Campaign publicity expense	29,404			29,404
Travel	35,749			35,749
Miscellaneous other	451,436			451,436
Total administrative expenses	9,160,478	-	-	9,160,478
Total expenses	32,708,938	-	-	32,708,938
CHANGE IN NET ASSETS	(21,254,481)	(351,225)	-	(21,605,706)
NET ASSETS—Beginning of year	331,045,050	10,773,451	1,800,792	343,619,293
NET ASSETS—End of year	<u>\$ 309,790,569</u>	<u>\$ 10,422,226</u>	<u>\$ 1,800,792</u>	<u>\$ 322,013,587</u>

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	<u>2,521,316</u>	<u>(2,521,316)</u>		<u>-</u>
Total revenues and losses	<u>29,250,079</u>	<u>412,114</u>	<u>-</u>	<u>29,662,193</u>
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	<u>1,214,119</u>			<u>1,214,119</u>
Total operating expenses	<u>19,900,628</u>	<u>-</u>	<u>-</u>	<u>19,900,628</u>
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	<u>556,365</u>			<u>556,365</u>
Total administrative expenses	<u>7,023,461</u>	<u>-</u>	<u>-</u>	<u>7,023,461</u>
Total expenses	<u>26,924,089</u>	<u>-</u>	<u>-</u>	<u>26,924,089</u>
CHANGE IN NET ASSETS	2,325,990	412,114	-	2,738,104
NET ASSETS—Beginning of year	<u>328,719,060</u>	<u>10,361,337</u>	<u>1,800,792</u>	<u>340,881,189</u>
NET ASSETS—End of year	<u>\$331,045,050</u>	<u>\$10,773,451</u>	<u>\$1,800,792</u>	<u>\$343,619,293</u>

See notes to financial statements.

ARMY EMERGENCY RELIEF

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Loan repayments	\$ 51,200,022	\$ 53,648,630
Annual fund campaign	9,046,885	9,471,702
Unsolicited contributions and bequests	53,079	81,775
Interest income	3,824,693	3,166,658
Dividends	3,144,084	3,400,843
	<u>67,268,763</u>	<u>69,769,608</u>
Total cash receipts		
Cash disbursements for:		
Loans	(53,726,850)	(57,288,164)
Grants and scholarships	(16,904,107)	(15,864,544)
Pentagon victims grants	(285,590)	(153,131)
Administrative expenses	(8,130,587)	(6,056,292)
Investment expenses	(1,227,810)	(1,214,119)
	<u>(80,274,944)</u>	<u>(80,576,250)</u>
Total cash disbursements		
Net cash used in operating activities		
	<u>(13,006,181)</u>	<u>(10,806,642)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash receipts for—investment sales		
	<u>141,043,255</u>	<u>169,888,553</u>
Total cash receipts		
Cash disbursements for:		
Investment purchases	(130,634,327)	(157,704,574)
Purchase of office and computer equipment	(323,833)	(2,610,567)
	<u>(130,958,160)</u>	<u>(160,315,141)</u>
Total cash disbursements		
Net cash provided by investing activities		
	<u>10,085,095</u>	<u>9,573,412</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		
	(2,921,086)	(1,233,230)
CASH AND CASH EQUIVALENTS—Beginning of year		
	<u>15,031,387</u>	<u>16,264,617</u>
CASH AND CASH EQUIVALENTS—End of year		
	<u>\$ 12,110,301</u>	<u>\$ 15,031,387</u>

(Continued)

ARMY EMERGENCY RELIEF

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Change in net assets	\$ (21,605,706)	\$ 2,738,104
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,052,546	847,428
Net realized and unrealized loss/(gain) on investments	5,219,318	(12,541,219)
Decrease (increase) in assets:		
Pledges receivable	454,552	63,867
Accrued investment income receivables	217,048	(214,801)
Gross loans receivable	3,037,598	(2,478,856)
Allowance for loan losses	(1,381,703)	1,233,476
Prepaid charges and other assets	(159,883)	151,784
Increase (decrease) in liabilities—accounts payable and accrued liabilities	<u>160,049</u>	<u>(606,425)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (13,006,181)</u>	<u>\$ (10,806,642)</u>

See notes to financial statements.

(Concluded)

ARMY EMERGENCY RELIEF

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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, 2015 and 2014, 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 receivables as of December 31, 2015 and 2014, is \$1,792,017 and \$2,246,569, 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, 2015 and 2014, all investments were held in a portfolio managed by The Northern Trust Company.

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (“ASU 2015-07”). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. AER early adopted ASU 2015-07 during 2015 on a retrospective basis, which required the restatement of prior periods. As a result of the adoption, \$25.6 million of investments measured at NAV as of December 31, 2014, are no longer included in Level 3 within the fair value hierarchy.

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. FASB Accounting Standards Codification (ASC) 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in financial statements. FASB ASC 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, 2015 and 2014.

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 19, 2016.

3. INVESTMENT EARNINGS

Investment earnings for the years ended December 31, 2015 and 2014, consist of the following:

	2015	2014
Interest and dividends:		
US Treasury and federal agencies	\$ 586,304	\$ 675,939
Corporate bonds and notes	2,836,780	2,459,766
Preferred and common stock	3,124,711	3,456,464
Real estate	183,650	168,825
Cash and cash equivalents	<u>20,284</u>	<u>21,308</u>
Total interest and dividends	<u>6,751,729</u>	<u>6,782,302</u>
Unrealized (losses) gains on investments:		
US Treasury and federal agencies	(576,780)	825,569
Corporate bonds and notes	(4,043,271)	(646,626)
Preferred and common stock	(8,774,639)	(8,417,284)
Private equity funds	326,086	2,238,071
Real estate	662,578	1,574,751
Hedge funds	<u>24,646</u>	<u></u>
Net unrealized losses on investments	<u>(12,381,380)</u>	<u>(4,425,519)</u>
Realized gains (losses) on investments:		
US Treasury and federal agencies	252,239	199,833
Corporate bonds and notes	(612,987)	925,668
Preferred and common stock	7,373,253	16,055,077
Private equity funds	434,401	
Real estate	(284,994)	(214,128)
Other assets	<u>150</u>	<u>288</u>
Net realized gains on investments	<u>7,162,062</u>	<u>16,966,738</u>
Total investment earnings	<u>\$ 1,532,411</u>	<u>\$ 19,323,521</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 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 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 has certain fixed-income securities which are classified as Level 3 under the fair value hierarchy and investments in private equity funds, hedge funds, and a real estate fund which are measured using NAV. 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, 2015 and 2014. 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, 2015, are as follows:

	Level 1	Level 2	Level 3	Investments measured at NAV ^(a)	Total
Assets:					
Cash and cash equivalents	\$ 12,110,301	\$ -	\$ -	\$ -	\$ 12,110,301
Investments—US Treasury and federal agencies		13,731,680			13,731,680
Corporate bonds and notes:					
Corporate bonds		24,670,734			24,670,734
Asset-backed securities		3,775,080	34,503		3,809,583
Commercial mortgage-backed securities		2,765,559			2,765,559
Municipal/provincial bonds		2,036,187			2,036,187
Non-government-backed collateralized mortgage obligations		251,052			251,052
Convertible bonds		1,176,866			1,176,866
Total corporate bonds and notes	-	34,675,478	34,503	-	34,709,981
Preferred and common stock:					
Domestic preferred stock	92,310,821	7,734			92,318,555
Domestic common stock	44,808,428				44,808,428
International common stock					
Total preferred and common stock	137,119,249	7,734	-	-	137,126,983
Other investments:					
Private equity funds				17,214,795	17,214,795
Real estate funds				3,078,767	3,078,767
Hedge funds				29,049,645	29,049,645
Commitments to hedge funds				20,675,999	20,675,999
Total other investments	-	-	-	70,019,206	70,019,206
Total investments at fair value	\$ 137,119,249	\$ 48,414,892	\$ 34,503	\$ 70,019,206	\$ 255,587,850

^(a) In accordance with ASU 2015-07, these amounts are composed of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient. These investments have not been classified in the fair value hierarchy and are intended to permit reconciliation to the amounts presented in the statements of financial position.

Fair value measurements under the fair value hierarchy at December 31, 2014, are as follows:

	Level 1	Level 2	Level 3	Investments measured at NAV ^(a)	Total
Assets:					
Cash and cash equivalents	\$ 14,855,405	\$ 175,982	\$ -	\$ -	\$ 15,031,387
Investments—US 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
Other investments:					
Private equity funds				20,881,468	20,881,468
Real estate funds				4,678,508	4,678,508
Total other investments	-	-	-	25,559,976	25,559,976
Total investments at fair value	\$ 163,876,572	\$ 81,089,826	\$ 111,884	\$ 25,559,976	\$ 270,638,258

^(a) In accordance with ASU 2015-07, these amounts are composed of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient. These investments have not been classified in the fair value hierarchy and are intended to permit reconciliation to the amounts presented in the statements of financial position.

For the years ended December 31, 2015 and 2014, there were no material changes to Level 3 investments measured at fair value on a recurring basis.

FASB ASC 820-10 contains measurement provisions for certain investments that do not have readily determinable fair values. FASB ASC 820-10-35-59 permits, as a practical expedient, the entity to use the investment's 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 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, 2015 and 2014, AER had outstanding future funding commitments of approximately \$1.9 million and \$2.5 million, respectively, related to agreements reached with private equity partnerships. 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 the investment in private equity partnership I will be liquidated in December 2016. It is estimated private equity partnerships II and III would be liquidated on the 12th anniversary from the respective effective dates of the partnerships. The effective dates of the private

equity partnerships II and III are 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.

Investments in hedge funds allow AER the opportunity to periodically redeem all or a portion of its investment value. These hedge funds do not contain any unfunded commitments as of December 31, 2015. The following table lists information regarding the fair value of hedge fund investments and summarizes the general terms and conditions upon which AER may redeem its investments:

	Fair Value	Redemption Frequency	Notice Period	Other Conditions
Polar multi-strategy	\$ 3,359,617	Monthly	60 Days	
Tourbillon	4,006,476	Annual	65 Days	
MW Eureka	5,444,697	Monthly	30 Days	
HG Vora	4,858,722	Monthly	90 Days	1 Yr Hard Lock
Autonomy	2,221,023	Monthly	60 Days	1 Yr Soft Lock (5%)
AQR style premia	6,183,244	Semimonthly	15 - 30 Days	
Graham tactical trend	<u>2,975,866</u>	Weekly	3 Days	
Hedge funds—December 31, 2015	<u>\$29,049,645</u>			

The Autonomy Global Macro Fund has implemented, for each shareholder, a 25% redemption limit each redemption period. The Tourbillon Fund allows only one redemption every 12 months subject to a 33% limit of the investment each redemption period. The AQR Style Premia Fund has implemented a 10% gate at the fund level for withdrawals made only as part of the mid-month redemption period. Cash commitments to hedge funds totaling \$20.7 million, for which shares had not yet been transferred, were excluded from the table above as they were not eligible for redemption as of December 31, 2015.

The hedge funds represent approximately 71% and 0% of investments measured at NAV as of December 31, 2015 and 2014, respectively, and include investments in equities, listed and over-the-counter (OTC) derivatives, fixed income securities, portfolio funds, and other alternative investments primarily through a “master fund/feeder fund” structure. These funds employ a variety of strategies with the goal of generating risk-adjusted returns while maintaining a limited correlation to equity markets. The private equity funds represent approximately 25% and 81% of investments measured at NAV as of December 31, 2015 and 2014, respectively, and include investments in buyout partnerships, venture capital, special situations, portfolio funds, and marketable securities. The real estate fund represents approximately 4% and 18% of the investments measured at NAV as of December 31, 2015 and 2014, respectively, and includes investments in office buildings, hotels, land, and multifamily housing units. The remaining Level 3 assets are composed of fixed-income securities, such as corporate bonds and asset-backed securities.

Investment allocations of the underlying assets for investments measured at NAV at December 31, 2015, are as follows:

Private equity:	
Buyout partnerships	54 %
Venture capital	42
Special situations	4
Real estate:	
Multifamily	100
Hedge fund:	
Common equities and fixed income	17
Derivatives	10
Fund of funds	73

Investment allocations of the underlying assets for investments measured at NAV 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

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 2015 and 7.6% for 2014. AER's contributions to the NAF retirement plan charged to expense were \$172,145 and \$158,176 during 2015 and 2014, 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 \$147,925 and \$133,957 during 2015 and 2014, 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, 2015, was \$90,413 and \$487,445, respectively, and for the year ended December 31, 2014, was \$113,743 and \$470,115, 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, 2015 and 2014. 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, 2015. AER did not incur any interest expense for the years ended December 31, 2015 and 2014. 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, 2015

	Program	Management and General	Fund Raising	Total
Grants	\$ 8,304,316	\$ -	\$ -	\$ 8,304,316
Children's scholarships	7,120,897			7,120,897
Spouse scholarships	1,478,894			1,478,894
Pentagon victims scholarships	285,590			285,590
Provision for uncollectible loans	5,130,953			5,130,953
Salaries, retirement and benefits	1,903,928	872,564	261,535	3,038,027
Payroll taxes	99,096	45,429	13,616	158,141
Professional services		155,159		155,159
Collection expenses	61,259			61,259
Custodian and investment counsel fees	27,100	1,200,710		1,227,810
Publicity expenses		19,540	9,863	29,403
Office administration	1,130,741	256,304	373,041	1,760,086
Bank fees	78,682	2,129		80,811
Information technology	1,653,700	486,368	193,411	2,333,479
Travel expense		35,749		35,749
Equipment depreciation	834,252	51,194	167,100	1,052,546
Insurance and blanket bond		76,713		76,713
Section training	334,650			334,650
Sundry office		24,616	19,839	44,455
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 28,444,058</u>	<u>\$ 3,226,475</u>	<u>\$ 1,038,405</u>	<u>\$ 32,708,938</u>

See note to 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
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 23,354,142</u>	<u>\$ 2,746,365</u>	<u>\$ 823,582</u>	<u>\$ 26,924,089</u>

See note to supplemental schedules.

ARMY EMERGENCY RELIEF

NOTE TO SUPPLEMENTAL SCHEDULES FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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 2015, those percentages were Direct labor hours—Program 68.68%, Management and General 22.37%, and Fund Raising 8.95%. For 2014, 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.

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.