

Army Emergency Relief

Financial Statements as of and for the
Years Ended December 31, 2016 and 2015,
Supplemental Schedules for the Years Ended
December 31, 2016 and 2015, and
Independent Auditors' Report

ARMY EMERGENCY RELIEF

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Army Emergency Relief (AER), which comprise the statements of financial position as of December 31, 2016 and 2015, 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, 2016 and 2015, 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

June 21, 2017

McLean, VA

ARMY EMERGENCY RELIEF

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 11,084,626	\$ 12,110,301
PLEDGES RECEIVABLE—Net of allowance for uncollectible pledges of \$69,506 and \$73,890 respectively	1,646,339	1,792,017
RECEIVABLE FROM SALE OF INVESTMENTS	4,210,863	115,952
INVESTMENTS—At fair value	253,053,724	255,587,850
ACCRUED INVESTMENT INCOME RECEIVABLES	730,975	842,634
LOANS RECEIVABLE—Net of allowance for doubtful loans of \$2,779,595 and \$2,666,562, respectively	44,918,317	45,087,225
PREPAID CHARGES AND OTHER ASSETS	175,734	298,263
OFFICE EQUIPMENT, COMPUTER HARDWARE AND SOFTWARE—Net of accumulated depreciation of \$3,509,245 and \$2,597,041, respectively	<u>6,587,991</u>	<u>7,440,862</u>
TOTAL ASSETS	<u>\$ 322,408,569</u>	<u>\$ 323,275,104</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 1,702,612	\$ 1,194,057
Payables for purchase of investments	<u>208,837</u>	<u>67,460</u>
Total liabilities	<u>1,911,449</u>	<u>1,261,517</u>
NET ASSETS:		
Unrestricted	<u>308,229,323</u>	<u>309,790,569</u>
Temporarily restricted:		
Annual fund campaign contributions	1,707,352	1,792,017
MAJ Hugh Boyd Casey Memorial Award	24,529	23,633
Pentagon Scholarship Fund	<u>8,735,124</u>	<u>8,606,576</u>
Total temporarily restricted net assets	<u>10,467,005</u>	<u>10,422,226</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>320,497,120</u>	<u>322,013,587</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 322,408,569</u>	<u>\$ 323,275,104</u>

See notes to financial statements.

ARMY EMERGENCY RELIEF

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND LOSSES:				
Annual fund campaign contributions	\$ 7,529,008	\$ 1,707,352	\$ -	\$ 9,236,360
Unsolicited contributions	313,500	1,850		315,350
Other income	536,214	115		536,329
Interest and dividends	5,025,605	148,443		5,174,048
Realized gain on investments	7,411,386	218,913		7,630,299
Unrealized gain on investments	4,322,172			4,322,172
Net assets released from restrictions— satisfaction of program restrictions	<u>2,031,894</u>	<u>(2,031,894)</u>		<u>-</u>
Total revenues and losses	<u>27,169,779</u>	<u>44,779</u>	<u>-</u>	<u>27,214,558</u>
EXPENSES:				
Operating:				
Grants and scholarships	14,835,475			14,835,475
Provision for uncollectibles	3,121,675			3,121,675
Custodian and investment counsel fees	<u>1,291,620</u>			<u>1,291,620</u>
Total operating expenses	<u>19,248,770</u>	<u>-</u>	<u>-</u>	<u>19,248,770</u>
Administrative:				
Salaries, retirement, and benefits	3,169,513			3,169,513
Payroll taxes	161,179			161,179
Automation	2,489,340			2,489,340
Equipment depreciation	1,166,272			1,166,272
Professional services	251,359			251,359
Insurance and blanket bond	66,113			66,113
Postage	151,326			151,326
Printing	323,249			323,249
Bank fees	71,872			71,872
Leases, maintenance, and maintenance contracts	894,425			894,425
Office supplies and equipment	33,459			33,459
Campaign publicity expense	36,434			36,434
Travel	5,628			5,628
Income Tax Expense	297,803			297,803
Miscellaneous other	<u>364,283</u>			<u>364,283</u>
Total administrative expenses	<u>9,482,255</u>	<u>-</u>	<u>-</u>	<u>9,482,255</u>
Total expenses	<u>28,731,025</u>	<u>-</u>	<u>-</u>	<u>28,731,025</u>
CHANGE IN NET ASSETS	(1,561,246)	44,779		(1,516,467)
NET ASSETS—Beginning of year	<u>309,790,569</u>	<u>10,422,226</u>	<u>1,800,792</u>	<u>322,013,587</u>
NET ASSETS—End of year	<u>\$ 308,229,323</u>	<u>\$ 10,467,005</u>	<u>\$ 1,800,792</u>	<u>\$ 320,497,120</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	<u>2,575,643</u>	<u>(2,575,643)</u>		<u>-</u>
Total revenues and losses	<u>11,454,457</u>	<u>(351,225)</u>	<u>-</u>	<u>11,103,232</u>
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	<u>1,227,810</u>			<u>1,227,810</u>
Total operating expenses	<u>23,548,460</u>	<u>-</u>	<u>-</u>	<u>23,548,460</u>
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	<u>451,436</u>			<u>451,436</u>
Total administrative expenses	<u>9,160,478</u>	<u>-</u>	<u>-</u>	<u>9,160,478</u>
Total expenses	<u>32,708,938</u>	<u>-</u>	<u>-</u>	<u>32,708,938</u>
CHANGE IN NET ASSETS	(21,254,481)	(351,225)		(21,605,706)
NET ASSETS—Beginning of year	<u>331,045,050</u>	<u>10,773,451</u>	<u>1,800,792</u>	<u>343,619,293</u>
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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Loan repayments	\$ 51,017,714	\$ 51,200,022
Annual fund campaign	9,383,482	9,046,885
Unsolicited contributions and bequests	25,258	53,079
Interest income	2,346,229	3,824,693
Dividends	<u>2,941,846</u>	<u>3,144,084</u>
Total cash receipts	<u>65,714,529</u>	<u>67,268,763</u>
Cash disbursements for:		
Loans	(53,615,536)	(53,726,850)
Grants and scholarships	(14,619,478)	(16,904,107)
Pentagon victims grants	(215,997)	(285,590)
Administrative expenses	(7,217,237)	(8,130,587)
Investment expenses	<u>(1,291,620)</u>	<u>(1,227,810)</u>
Total cash disbursements	<u>(76,959,868)</u>	<u>(80,274,944)</u>
Net cash used in operating activities	<u>(11,245,339)</u>	<u>(13,006,181)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash receipts for—investment sales		
Total cash receipts	<u>99,864,916</u>	<u>141,043,255</u>
Cash disbursements for:		
Investment purchases	(89,331,851)	(130,634,327)
Purchase of office and computer equipment	<u>(313,401)</u>	<u>(323,833)</u>
Total cash disbursements	<u>(89,645,252)</u>	<u>(130,958,160)</u>
Net cash provided by investing activities	<u>10,219,664</u>	<u>10,085,095</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,025,675)	(2,921,086)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>12,110,301</u>	<u>15,031,387</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 11,084,626</u>	<u>\$ 12,110,301</u>

(Continued)

ARMY EMERGENCY RELIEF

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Change in net assets	\$ (1,516,467)	\$ (21,605,706)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,166,272	1,052,546
Net realized and unrealized (gain)/loss on investments	(11,952,471)	5,219,318
Decrease (increase) in assets:		
Pledges receivable	145,678	454,552
Accrued investment income receivables	111,659	217,048
Gross loans receivable	55,874	3,037,598
Allowance for loan losses	113,032	(1,381,703)
Prepaid charges and other assets	122,529	(159,883)
Increase in liabilities—accounts payable and accrued liabilities	<u>508,555</u>	<u>160,049</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (11,245,339)</u>	<u>\$ (13,006,181)</u>

See notes to financial statements.

(Concluded)

ARMY EMERGENCY RELIEF

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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 may include both designated and undesignated funds. There are no designated funds as of December 31, 2016 or 2015.

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. Investment income generated by those net assets is utilized for donor-stated purposes until the restriction periods lapses.

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, 2016 and 2015, 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, 2016 and 2015, is \$1,646,339 and \$1,792,017, 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, 2016 and 2015, 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. The adoption of ASU 2015-07 resulted in \$69.6 million and \$70.0 million of investments measured at NAV as of December 31, 2016 and 2015, respectively, being excluded from 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 Equipment, Computer Hardware and Software— Office Equipment, Computer Hardware and Software 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—Accounting for Uncertainty in Income Taxes, Accounting Standards Codification (ASC) (740-10), prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. AER is a tax exempt organization under Internal Revenue Code Section 501 (c) (3), and its related income is exempt from Federal Income Tax under Section 501 (a). The system AER uses accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Using this system, in 2016 AER had an estimated tax expense of \$297.8 thousand resulting from \$876.9 thousand in Unrelated Business Taxable Income (UBTI) by one of its portfolio funds, the Value Enhancement Fund. This tax expense was estimated net of fund management fees, rental losses, and other allowable deductions.

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.

Recent Accounting Pronouncements—In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). This guidance defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 will be effective for annual periods beginning after December 15, 2016, with early adoption permitted.

In August 2016, the FASB issued ASU 2016-14 to Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends several requirements for financial statements and notes, including net asset classifications in the statement of financial position and statement of activities and enhanced disclosures in numerous areas. The ASU is effective for AER's December 31, 2018 year end. Management is evaluating the impact this ASU will have on the financial statements.

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 issued on June 21, 2017.

3. INVESTMENT EARNINGS

Investment earnings for the years ended December 31, 2016 and 2015, consist of the following:

	2016	2015
Interest and dividends:		
US Treasury and federal agencies	\$ 303,826	\$ 586,304
Corporate bonds and notes	1,844,078	2,836,780
Preferred and common stock	2,939,090	3,124,711
Real estate	59,382	183,650
Cash and cash equivalents	<u>27,672</u>	<u>20,284</u>
Total interest and dividends	<u>5,174,048</u>	<u>6,751,729</u>
Unrealized (losses) gains on investments:		
US Treasury and federal agencies	(282,199)	(576,780)
Corporate bonds and notes	2,982,489	(4,043,271)
Preferred and common stock	260,663	(8,774,639)
Private equity funds	(1,357,452)	326,086
Real estate	204,287	662,578
Hedge funds	<u>2,514,384</u>	<u>24,646</u>
Net unrealized gains (losses) on investments	<u>4,322,172</u>	<u>(12,381,380)</u>
Realized gains (losses) on investments:		
US Treasury and federal agencies	172,046	252,239
Corporate bonds and notes	101,878	(612,987)
Preferred and common stock	5,275,978	7,373,253
Private equity funds	1,465,000	434,401
Real estate	547,864	(284,994)
Hedge Funds	67,533	0
Other assets	<u>150</u>	<u>150</u>
Net realized gains on investments	<u>7,630,299</u>	<u>7,162,062</u>
Total investment earnings	<u>\$ 17,126,519</u>	<u>\$ 1,532,411</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, as reported to AER by the custodian and trustee, the Northern Trust Company.

The following table sets forth financial instruments recorded at fair value on a recurring basis as of December 31, 2016 and 2015. 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, 2016, are as follows:

	Level 1	Level 2	Level 3	Investments Measured at NAV ^(a)	Total
Assets:					
Cash and cash equivalents	\$ 11,084,626	\$ _____	\$ _____	\$ _____	\$ 11,084,626
Investments—US Treasury and federal agencies	_____	13,261,176	304,613	_____	13,565,789
Corporate bonds and notes:					
Corporate bonds		21,870,605	252,923		22,123,528
Asset-backed securities		3,467,800			3,467,800
Commercial mortgage-backed securities		2,432,791			2,432,791
Municipal/provincial bonds		2,269,472			2,269,472
Non-government-backed collateralized mortgage obligations		256,792			256,792
Convertible bonds	_____	1,138,248	_____	_____	1,138,248
Total corporate bonds and notes	_____	31,435,708	252,923	_____	31,688,631
Preferred and common stock:					
Domestic common stock	83,818,631	5,494			83,824,125
International common stock	54,394,183	_____	_____	_____	54,394,183
Total preferred and common stock	138,212,814	5,494	_____	_____	138,218,308
Other investments:					
Private equity funds				13,448,617	13,448,617
Real estate funds				2,068,350	2,068,350
Hedge funds	_____	_____	_____	54,064,029	54,064,029
Total other investments	_____	_____	_____	69,580,996	69,580,996
Total investments at fair value	\$ 138,212,814	\$ 44,702,378	\$ 557,536	\$ 69,580,996	\$ 253,053,724

^(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 included to permit reconciliation to the amounts presented in the statements of financial position.

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 common stock	92,310,821	7,734			92,318,555
International common stock	44,808,428				44,808,428
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 included to permit reconciliation to the amounts presented in the statements of financial position.

For the years ended December 31, 2016 and 2015, 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, 2016 and 2015, AER had outstanding future funding commitments of approximately \$ 37.5 million and \$1.9 million, respectively, related to

agreements reached with private equity and real estate funds. These agreements do not specify when such funding requests will be made by the private equity and real estate funds. AER's investments in the private equity and real estate funds are not subject to redemption and are normally returned through distribution at the point of termination of the respective partnerships. It is estimated that \$5.5 Million of investments in private equity partnerships will be liquidated by December 2017. Another \$6.8M in estimated private equity partnerships investments will be liquidated on the 12th anniversary from the respective effective dates of the partnerships which was February 2007. For the real estate partnerships, it is estimated that an additional \$1.2 Million in partnership investments will be liquidated by December 2017. The funds from all liquidations in 2017 will be used to meet outstanding future funding commitments, along with hedge fund distributions. Further distributions from these AER hedge funds and potentially others are likely in the 2nd half of 2017, continuing into 2018 to meet future funding commitments.

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, 2016; the unfunded commitment to hedge funds was \$20.7 million 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:

2016 AER Hedge Fund Fair Value Estimates, Terms and Conditions

	Fair Value	Redemption Frequency	Notice Period	Other Conditions*
Alphadyne International Fund	3,410,405	Monthly	60 Days	1 Yr Soft Lock (3%)
AQR style premia Fund	6,104,807	Monthly	5 days	
Archer Capital Offshore Fund	4,362,596	Quarterly	90 Days	
Autonomy Global Macro Fund	2,780,970	Monthly	62 Days	1 Yr Soft Lock (5%)
Brenham Capital Fund	5,623,411	Quarterly	60 Days	1 Yr Soft Lock (3%)
Corvex Master Fund	3,265,007	Quarterly	60 Days	1 Yr Soft Lock (3%)
Graham tactical trend Segregated Fund	2,657,067	Monthly	3 days	
Graticule Asia Macro Fund LTD	3,579,246	Quarterly	30 Days	
HG Vora Special Opoortunities Fund	5,553,150	Quarterly	90 Days	25% gate
Marshal Ware Eureka	5,515,319	Monthly	30 Days	
Pelham Long-Short Fund	3,708,081	Monthly	90 Days	1 yr Hrd lock
Polar multi-strategy Fund	\$ 3,864,005	Monthly	60 Days	
Tourbillon Global Equities Fund	3,639,965	Monthly	65 Days	
Hedge funds—December 31, 2016	<u>\$ 54,064,029</u>			

2015 AER Hedge Fund Fair Value Estimates, Terms and Conditions

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

*A "Soft lock" allows investors (AER) to pull its funds out of a fund before a lock period ends (i.e. 1 year) only after paying a fee. A "hard-lock" does not allow the investors to pull its funds out of a fund before the lock period ends under any conditions. All of AER's investments at the end of 2016 had passed their -1 year lock period.

The Autonomy Global Macro Fund has implemented, for each shareholder, a 25% redemption limit each redemption period. The Tourbillon Global Equities 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.

The hedge funds represent approximately 77% and 71% of investments measured at NAV as of December 31, 2016 and 2015, 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 19% and 25% of investments measured at NAV as of December 31, 2016 and 2015, respectively, and include investments in buyout partnerships, venture capital, special situations, portfolio funds, and marketable securities. The real estate fund represents approximately 4% and 4% of the investments measured at NAV as of December 31, 2016 and 2015, 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, 2016, are as follows:

Private equity:	
Buyout partnerships	45 %
Venture capital	50
Special situations	5
Real estate—multifamily	50
Real estate—diversified	50
Hedge fund:	
Common equities and fixed income	60
Derivatives	34
Fund of funds	6

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

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 2016 and 7.6% for 2015. AER's contributions to the NAF retirement plan charged to expense were \$173,112 and \$172,145 during 2016 and 2015, 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 \$138,088 and \$147,925 during 2016 and 2015, 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 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, 2016, was \$0 and \$532,321, respectively, and for the year ended December 31, 2015, was \$90,413 and \$487,445, 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 and the related expense have 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, 2016 and 2015. AER did not incur any interest expense for the years ended December 31, 2016 and 2015. In November 2016, AER renewed The Northern Trust Company line of credit with similar terms through October 2017 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, 2016

	Program	Management and General	Fund Raising	Total
Grants	\$ 7,315,228	\$ -	\$ -	\$ 7,315,228
Children's scholarships	6,037,962			6,037,962
Spouse scholarships	1,266,288			1,266,288
Pentagon victims scholarships	215,997			215,997
Provision for uncollectible loans	3,121,675			3,121,675
Salaries and benefits	1,990,279	906,089	273,145	3,169,513
Payroll taxes	101,237	46,049	13,893	161,179
Professional services		170,999		170,999
Collection expenses	80,360			80,360
Custodian and investment counsel fees	22,923	1,268,697		1,291,620
Publicity expenses		15,013	21,421	36,434
Office administration	916,773	220,755	344,952	1,482,480
Bank expense	70,496	1,376		71,872
Information technology	1,747,747	517,309	207,045	2,472,101
Travel expense		5,628		5,628
Equipment depreciation	912,359	76,635	177,278	1,166,272
Insurance and blanket bond		66,113		66,113
Staff training	257,567			257,567
Income Tax Expense		297,803		297,803
Sundry office expenses		23,152	20,782	43,934
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	\$ 24,056,891	\$ 3,615,618	\$ 1,058,516	\$ 28,731,025

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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
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

NOTE TO SUPPLEMENTAL SCHEDULES FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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 2016, those percentages were Direct labor hours—Program 68.68%, Management and General 22.37%, and Fund Raising 8.95%. For 2015, those percentages were Direct labor hours—Program 68.68%, Management and General 22.37%, 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.

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