



# Army Emergency Relief

Financial Statements  
and Supplementary Information  
Years Ended December 31, 2017 and 2016

# Army Emergency Relief

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Financial Statements  
and Supplementary Information  
Years Ended December 31, 2017 and 2016

# Army Emergency Relief

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of **Army Emergency Relief (AER)**, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 **Army Emergency Relief** as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matter - Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Other Matter - 2016 Financial Statements*

The 2016 financial statements of AER were audited by other auditors, whose report dated June 21, 2017, expressed an unmodified opinion on those statements.

BDO USA, LLP

May 10, 2018

## Financial Statements

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**Army Emergency Relief**  
**Statements of Financial Position**

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 6,509,360	\$ 11,084,626
Pledges receivable - net of allowance for uncollectible pledges of \$74,268 and \$69,506, respectively	1,624,067	1,646,339
Receivable from sale of investments	-	4,210,863
Investments	286,327,537	253,053,724
Accrued investment income receivable	479,747	730,975
Loans receivable - net of allowance for doubtful loans of \$2,807,099 and \$2,779,595, respectively	43,800,497	44,918,317
Prepaid charges and other assets	253,708	175,734
Office equipment, computer hardware and software - net of accumulated depreciation and amortization of \$4,710,967 and \$3,509,245, respectively	5,386,795	6,587,991
<b>Total assets</b>	<b>\$ 344,381,711</b>	<b>\$ 322,408,569</b>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,267,078	\$ 1,702,612
Payables for purchase of investments	-	208,837
<b>Total liabilities</b>	<b>1,267,078</b>	<b>1,911,449</b>
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Unrestricted	330,593,167	308,229,323
Temporarily restricted	10,720,674	10,467,005
Permanently restricted	1,800,792	1,800,792
<b>Total net assets</b>	<b>343,114,633</b>	<b>320,497,120</b>
<b>Total liabilities and net assets</b>	<b>\$ 344,381,711</b>	<b>\$ 322,408,569</b>

*See accompanying notes to financial statements.*

# Army Emergency Relief

## Statement of Activities

Year ended December 31,	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, gains and other support</b>				
Annual fund campaign contributions	\$ 7,625,551	\$ 1,624,067	\$ -	\$ 9,249,618
Other contributions	858,863	21,098	-	879,961
Interest and dividends	4,764,869	140,742	-	4,905,611
Realized gains on investments	17,680,340	529,184	-	18,209,524
Unrealized gains on investments	20,122,302	-	-	20,122,302
Net assets released from restrictions:				
Satisfaction of program restrictions	2,061,422	(2,061,422)	-	-
<b>Total revenue, gains and other support</b>	<b>53,113,347</b>	<b>253,669</b>	<b>-</b>	<b>53,367,016</b>
<b>Expenses</b>				
<b>Operating expenses</b>				
Grants and scholarships	19,230,080	-	-	19,230,080
Provision for uncollectible loans	2,666,920	-	-	2,666,920
Custodian and investment counsel fees	1,077,890	-	-	1,077,890
<b>Total operating expenses</b>	<b>22,974,890</b>	<b>-</b>	<b>-</b>	<b>22,974,890</b>
<b>Administrative expenses</b>				
Personnel salaries & benefits	3,241,356	-	-	3,241,356
Office administration	2,149,255	-	-	2,149,255
Depreciation	1,208,549	-	-	1,208,549
Automation	888,702	-	-	888,702
Section training	286,751	-	-	286,751
<b>Total administrative expenses</b>	<b>7,774,613</b>	<b>-</b>	<b>-</b>	<b>7,774,613</b>
<b>Total expenses</b>	<b>30,749,503</b>	<b>-</b>	<b>-</b>	<b>30,749,503</b>
<b>Change in net assets</b>	<b>22,363,844</b>	<b>253,669</b>	<b>-</b>	<b>22,617,513</b>
<b>Net assets, beginning of year</b>	<b>308,229,323</b>	<b>10,467,005</b>	<b>1,800,792</b>	<b>320,497,120</b>
<b>Net assets, end of year</b>	<b>\$ 330,593,167</b>	<b>\$ 10,720,674</b>	<b>\$ 1,800,792</b>	<b>\$ 343,114,633</b>

*See accompanying notes to financial statements.*



# Army Emergency Relief

## Statement of Activities

Year ended December 31,	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, gains, and other support</b>				
Annual fund campaign contributions	\$ 7,529,008	\$ 1,707,352	\$ -	\$ 9,236,360
Other contributions	849,714	1,965	-	851,679
Interest and dividends	5,025,605	148,443	-	5,174,048
Realized gains on investments	7,411,386	218,913	-	7,630,299
Unrealized gains on investments	4,322,172	-	-	4,322,172
Net assets released from restrictions:				
Satisfaction of program restrictions	2,031,894	(2,031,894)	-	-
<b>Total revenue, gains, and other support</b>	<b>27,169,779</b>	<b>44,779</b>	<b>-</b>	<b>27,214,558</b>
<b>Expenses</b>				
<b>Operating expenses</b>				
Grants and scholarships	14,835,475	-	-	14,835,475
Provision for uncollectible loans	3,121,675	-	-	3,121,675
Custodian and investment counsel fees	1,291,620	-	-	1,291,620
<b>Total operating expenses</b>	<b>19,248,770</b>	<b>-</b>	<b>-</b>	<b>19,248,770</b>
<b>Administrative expenses</b>				
Personnel salaries & benefits	3,330,692	-	-	3,330,692
Office administration	2,255,623	-	-	2,255,623
Depreciation	1,166,272	-	-	1,166,272
Automation	2,472,101	-	-	2,472,101
Section training	257,567	-	-	257,567
<b>Total administrative expenses</b>	<b>9,482,255</b>	<b>-</b>	<b>-</b>	<b>9,482,255</b>
<b>Total expenses</b>	<b>28,731,025</b>	<b>-</b>	<b>-</b>	<b>28,731,025</b>
<b>Change in net assets</b>	<b>(1,561,246)</b>	<b>44,779</b>	<b>-</b>	<b>(1,516,467)</b>
<b>Net assets, beginning of year</b>	<b>309,790,569</b>	<b>10,422,226</b>	<b>1,800,792</b>	<b>322,013,587</b>
<b>Net assets, end of year</b>	<b>\$ 308,229,323</b>	<b>\$ 10,467,005</b>	<b>\$ 1,800,792</b>	<b>\$ 320,497,120</b>

*See accompanying notes to financial statements.*

# Army Emergency Relief

## Statements of Cash Flows

<i>Years ended December 31,</i>	2017	2016
<b>Cash flows from operating activities:</b>		
<b>Cash receipts from</b>		
Loan repayments	\$ 50,046,425	\$ 51,017,714
Annual fund campaign	9,272,036	9,383,482
Unsolicited contributions and bequests	46,119	25,258
Interest income	2,170,134	2,346,229
Dividends	2,987,493	2,941,846
<b>Total cash receipts</b>	<b>64,522,207</b>	<b>65,714,529</b>
<b>Cash disbursements for</b>		
Loans	(51,878,949)	(53,615,536)
Grants and scholarships	(19,230,080)	(14,835,475)
Administrative expenses	(5,963,240)	(7,217,235)
Investment expenses	(1,077,890)	(1,291,620)
<b>Total cash disbursements</b>	<b>(78,150,159)</b>	<b>(76,959,866)</b>
<b>Net cash used in operating activities</b>	<b>(13,627,952)</b>	<b>(11,245,337)</b>
<b>Cash flows from investing activities:</b>		
Cash receipts for investments sales	136,635,615	99,864,916
<b>Total cash receipts</b>	<b>136,635,615</b>	<b>99,864,916</b>
<b>Cash disbursements for</b>		
Investment purchases	(127,575,576)	(89,331,853)
Purchases of office and computer equipment	(7,353)	(313,401)
<b>Total cash disbursements</b>	<b>(127,582,929)</b>	<b>(89,645,254)</b>
<b>Net cash provided by investing activities</b>	<b>9,052,686</b>	<b>10,219,662</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(4,575,266)</b>	<b>(1,025,675)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>11,084,626</b>	<b>12,110,301</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,509,360</b>	<b>\$ 11,084,626</b>
<b>Reconciliation of change in net assets to net cash used in operating activities:</b>		
Change in net assets	\$ 22,617,513	\$ (1,516,467)
<b>Adjustments to reconcile change in net assets to net cash used in operating activities:</b>		
Depreciation	1,208,549	1,166,272
Provision for uncollectable loans	2,666,920	3,121,675
Net realized and unrealized gains on investments	(38,331,826)	(11,952,471)
<b>Decrease (Increase) in assets:</b>		
Pledges receivable	22,272	145,678
Accrued investment income receivable	251,228	111,659
Loans receivable	(1,549,100)	(2,952,767)
Prepaid charges and other assets	(77,974)	122,529
<b>(Decrease) Increase in liabilities</b>		
Accounts payable and accrued liabilities	(435,534)	508,555
<b>Net cash used in operating activities:</b>	<b>\$ (13,627,952)</b>	<b>\$ (11,245,337)</b>

*See accompanying notes to financial statements.*

# Army Emergency Relief

## Notes to Financial Statements

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### 1. Summary of Significant Accounting Policies

#### *Organization*

The Army Emergency Relief (AER) is a private, not-for-profit 501(c)(3) 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.

#### *Basis of Accounting*

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and are presented in accordance with the accrual basis of accounting, whereby, revenue, gains and other support are recognized when earned and expenses are recognized when incurred.

#### *Basis of Presentation*

The financial statements are presented in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), *Financial Statements of Not-for-Profit Organizations*, whereby AER is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. As of December 31, 2017 and 2016, and for the years then ended, AER has recorded activities in the following net asset classes:

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

**Temporarily restricted net assets** - Net assets that result from donor contributions that are subject to specific donor imposed restrictions which will be met by the passage of time or will be fulfilled by actions of AER. 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** - Net assets that result from donor contributions whose use is limited by specific donor imposed restrictions that neither expire by the passage of time, nor can be fulfilled or otherwise removed by the actions of AER. Investment income generated by these net assets are 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, excluding money market accounts held as part of investments.

# Army Emergency Relief

## Notes to Financial Statements

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### *Pledges Receivable*

As of December 31, 2017 and 2016, 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, 2017 and 2016, were \$1,624,067 and \$1,646,339, respectively, and is recorded as pledges receivable in the statements of financial position.

### *Conditional Promises to Give and Intentions*

Contributors have informed AER of intentions to give of approximately \$800,000 and \$50,000 at December 31, 2017 and 2016, respectively. These intentions relate to bequests and revocable trusts, which can be changed and/or amended at the contributor's discretion or to pledges with donor imposed conditions. Therefore, they are appropriately not recorded in the accompanying financial statements.

### *Investments*

AER accounts for investments at fair value with any related gains or losses reported in the statements of activities. Investments in private equity funds, real estate funds, and hedge funds 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. Because of the inherent uncertainty of valuation, it is reasonably possible that such estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

All investments were held in a portfolio managed by The Northern Trust Company as of December 31, 2017 and 2016.

### *Financial Instruments and Credit Risk*

AER maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. AER has not experienced any losses in such accounts. AER believes it is not exposed to any significant financial risk on cash and cash equivalents.

AER invests in a professionally managed portfolio that contains cash and cash equivalents, U.S. Treasury and federal agencies, corporate bonds and notes, preferred and common stock, private equity funds, real estate funds, and hedge funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

### *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. Pledges receivable are written off if reasonable collection efforts prove unsuccessful. Provision for uncollectible loans is reflected as part of operating expenses on the statements of activities when allowances on pledges receivable are increased or when accounts written off exceed available allowances.

# Army Emergency Relief

## Notes to Financial Statements

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### *Office Equipment, Computer Hardware and Software*

Equipment purchases are recorded in the financial statements at cost, net of accumulated depreciation and amortization. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets as follows:

Software	3 years
Equipment	3-5 years
Furniture and fixtures	5-7 years
Business Enterprise System	10 years

AER's policy is to capitalize major additions and improvements over \$500. When assets are sold or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts, and any remaining gain or loss is included in operations. Repairs and maintenance which do not significantly add to the value of assets are expensed as incurred. Improvements and repairs which extend the life or increase the value of office equipment, computer hardware and software are capitalized.

### *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 Taxes*

AER is generally exempt from federal income taxes under the provisions of Section 501 (c)(3) of the Internal Revenue Code (IRC). In addition, AER has been classified as an organization that is not a private foundation. Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. In 2017, AER had an estimated tax expense of \$100,000 resulting from approximately \$294,000 in Unrelated Business Taxable Income (UBTI) by four of its portfolio funds. In 2016, AER had an estimated tax expense of \$297,803 resulting from approximately \$877,000 in UBTI by four of its portfolio funds. These tax expenses were estimated net of fund management fees, rental losses, and other allowable deductions.

Under ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*, AER may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Management evaluated AER's tax positions and concluded that AER had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of ASC 740-10.

# Army Emergency Relief

## Notes to Financial Statements

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### *Use of Estimates*

The preparation of financial statements in accordance with U.S. GAAP 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.

### *Reclassifications*

Certain reclassifications have been made to the 2016 financial statements to conform to the current year presentation.

### *Recent Accounting Pronouncements*

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "*Revenue from Contracts with Customers* (Topic 606)." The update establishes a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP including those that previously followed industry-specific guidance. The principle of the update is that an entity should recognize revenue to depict the transfer of promised goods and services to customers under a contract in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for AER's fiscal year 2019. Management continues to evaluate the potential impact of this update on AER's financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for AER's financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on their financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows*. The update standardizes how certain transactions should be classified in the statement of cash flows. The guidance is effective for 2018. Presently, management does not anticipate that the adoption of this update will have a material effect on AER's financial statements.

**Army Emergency Relief**  
**Notes to Financial Statements**

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**2. Investments**

Investments consist of the following at:

<i>December 31,</i>	2017	2016
U.S. Treasury and federal agencies	\$ 8,656,229	\$ 13,565,789
Corporate bonds and notes	20,518,728	31,688,631
Preferred and common stock	180,053,657	138,218,308
Other investments	77,098,923	69,580,996
<b>Total investments</b>	<b>\$ 286,327,537</b>	<b>\$ 253,053,724</b>

Investment earnings for the years ended December 31, 2017 and 2016, consist of the following:

	2017	2016
Interest and dividends:		
U.S. Treasury and federal agencies	\$ 275,821	\$ 303,826
Corporate bonds and notes	1,499,821	1,844,078
Preferred and common stock	2,897,723	2,939,090
Private equity funds	117,915	-
Real estate	32,904	59,382
Cash and cash equivalents	81,427	27,672
<b>Total interest and dividends</b>	<b>4,905,611</b>	<b>5,174,048</b>
Realized gains on investments:		
U.S. Treasury and federal agencies	190,125	172,046
Corporate bonds and notes	438,006	101,878
Preferred and common stock	13,053,812	5,275,978
Private equity funds	3,927,610	1,465,000
Real estate	100,337	547,864
Hedge funds	499,634	67,533
<b>Net realized gains on investments</b>	<b>18,209,524</b>	<b>7,630,299</b>
Unrealized gains (losses) on investments:		
U.S. Treasury and federal agencies	(161,988)	(282,199)
Corporate bonds and notes	(66,925)	2,982,489
Preferred and common stock	19,660,798	260,663
Private equity funds	(2,827,069)	(1,357,452)
Real estate	335,039	204,287
Hedge funds	3,182,447	2,514,384
<b>Net unrealized gains on investments</b>	<b>20,122,302</b>	<b>4,322,172</b>
<b>Total investment earnings</b>	<b>\$ 43,237,437</b>	<b>\$ 17,126,519</b>

# Army Emergency Relief

## Notes to Financial Statements

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### 3. Fair Value Measurement

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 real estate funds which are measured using NAV. The fair values of these investments are evaluated and 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, 2017 and 2016. 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.



# Army Emergency Relief

## Notes to Financial Statements

The table below sets forth those assets measured at fair value as of December 31, 2017.

Description	Level 1	Level 2	Level 3	Investments Measured at NAV*	Total
Cash and cash equivalents	\$ 6,509,360	\$ -	\$ -	-	\$ 6,509,360
U.S. Treasury and federal agencies	-	8,656,229	-	-	8,656,229
Corporate bonds and notes:					
Corporate bonds	-	14,125,017	180,607	-	14,305,624
Asset-backed securities	-	3,044,565	-	-	3,044,565
Commercial mortgage-backed securities	-	1,234,121	-	-	1,234,121
Municipal/provincial bonds	-	1,286,666	-	-	1,286,666
Non-government-backed collateralized mortgage obligations	-	259,699	-	-	259,699
Convertible bonds	-	388,053	-	-	388,053
Total corporate bonds and notes	-	20,338,121	180,607	-	20,518,728
Preferred and common stock:					
Domestic common stock	109,694,894	24,269	4,680	-	109,723,843
International common stock	70,329,814	-	-	-	70,329,814
Total preferred and common stock	180,024,708	24,269	4,680	-	180,053,657
Other investments:					
Private equity funds	-	-	1,773,675	15,250,289	17,023,964
Real estate funds	-	-	-	4,252,334	4,252,334
Hedge funds	-	-	-	55,686,119	55,686,119
Other	-	-	1,761	134,745	136,506
Total other investments	-	-	1,775,436	75,323,487	77,098,923
<b>Total</b>	<b>\$ 186,534,068</b>	<b>\$ 29,018,619</b>	<b>\$ 1,960,723</b>	<b>\$ 75,323,487</b>	<b>\$ 292,836,897</b>

\*In accordance with ASU 2015-07, these amounts are composed of certain investments measured at fair value using net asset value (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.

The balance of AER's financial assets as of December 31, 2017, is classified in the statements of financial position as follows:

Cash and cash equivalents	\$ 6,509,360
Investments	286,327,537
	<b>\$ 292,836,897</b>

# Army Emergency Relief

## Notes to Financial Statements

The table below sets forth those assets measured at fair value as of December 31, 2016.

Description	Level 1	Level 2	Level 3	Investments Measured at NAV*	Total
Cash and cash equivalents	\$ 11,084,626	\$ -	\$ -	-	\$ 11,084,626
U.S. Treasury and federal agencies	-	13,261,176	304,613	-	13,565,789
<b>Corporate bonds and notes:</b>					
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
<b>Total corporate bonds and notes</b>	-	31,435,708	252,923	-	31,688,631
<b>Preferred and common stock:</b>					
Domestic common stock	83,818,631	5,494	-	-	83,824,125
International common stock	54,394,183	-	-	-	54,394,183
<b>Total preferred and common stock</b>	138,212,814	5,494	-	-	138,218,308
<b>Other investments:</b>					
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
Other	-	-	-	-	-
<b>Total other investments</b>	-	-	-	69,580,996	69,580,996
<b>Total</b>	<b>\$ 149,297,440</b>	<b>\$ 44,702,378</b>	<b>\$ 557,536</b>	<b>\$ 69,580,996</b>	<b>\$ 264,138,350</b>

\*In accordance with ASU 2015-07, these amounts are composed of certain investments measured at fair value using net asset value (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.

The balance of AER's financial assets as of December 31, 2016, is classified in the statements of financial position as follows:

Cash and cash equivalents	\$ 11,084,626
Investments	253,053,724
	<b>\$ 264,138,350</b>

For the years ended December 31, 2017 and 2016, there were no material changes to Level 3 investments measured at fair value on a recurring basis.

# Army Emergency Relief

## Notes to Financial Statements

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, 2017 and 2016, AER had outstanding future funding commitments of approximately \$64.4 million and \$33.9 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. But in general, it is expected that they will be made during the investment period of the respective funds, which will be the next 3 - 5 years. AER's investments in the private equity and real estate funds are not subject to redemption and are normally returned through distribution during the harvesting period when the private equity and real estate funds exit from their respective investments. The agreements specify the length of the investment period and the term of the fund, i.e., the length of the combined investment and harvesting period, which is typically ranging from 10 to 12 years with the option to extend additional 1 - 4 years. It is expected that AER will use the proceeds received from the private equity and real estate funds in their harvesting period to meet outstanding future funding commitments, along with other funding sources such as partial redemptions from public equity.

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, 2017 and 2016. 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:

2017 AER Hedge Fund Fair Value Estimates, Terms and Conditions				
	Fair Value	Redemption Frequency	Notice Period	Other Conditions*
Alphadyne International Fund	\$ 3,759,520	Monthly	60 Days	1 Yr Soft Lock (3%)
AQR Style Premia Fund	6,329,983	Monthly	5 Days	
Archer Capital Offshore Fund	-	Quarterly	90 Days	1 yr Soft Lock (5%)
Asturias	1,285,946	Quarterly	60 Days	1 Yr Soft Lock (5%)
Autonomy Global Macro Fund	2,956,341	Monthly	62 Days	1 Yr Soft lock (5%)
Black Diamond	1,180,988	Quarterly	60 days	1 Yr Soft Lock (3%)
Brenham Capital Fund	4,839,368	Quarterly	60 Days	1 Yr Soft lock (3%)
Corvex Master Fund	-	Quarterly	60 Days	1 Yr Soft lock (3%)
Graham Tactical Trend Segregated Fund	2,807,823	Monthly	3 Days	
Graticule Asia Macro Fund LTD	3,833,400	Quarterly	30 Days	
HG Vora Special Opportunities Fund	6,295,213	Quarterly	90 Days	25% gate
Marshal Ware Eureka	6,178,735	Monthly	30 Days	
Nut Tree	5,631,807	Quarterly	75 Days	1 Yr Soft lock 5%
Pelham Long-Short Fund	4,336,261	Monthly	90 Days	1 Yr Hrd lock
Polar Multi-Strategy Fund	4,150,915	Monthly	60 Days	
Tourbillon Global Equities Fund	2,099,819	Monthly	65 Days	
Hedge funds - December 31, 2017	\$ 55,686,119			

# Army Emergency Relief

## Notes to Financial Statements

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 Opportunities 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	\$ 54,064,029			

\*A "Soft lock" allows investors (AER) to pull its funds out of a fund before a lock period ends (ie 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 2017 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 74% and 78% of investments measured at NAV as of December 31, 2017 and 2016, 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 20% and 19% of investments measured at NAV as of December 31, 2017 and 2016, respectively, and include investments in buyout partnerships, venture capital, special situations, portfolio funds, and marketable securities. The real estate fund represents approximately 6% and 3% of the investments measured at NAV as of December 31, 2017 and 2016, respectively, and includes investments in office buildings, hotels, land, and multifamily housing units. The remaining Level 3 assets are composed of U.S. Treasuries, corporate bonds, domestic common stock, and private equity funds.

# Army Emergency Relief

## Notes to Financial Statements

Investment allocations of the underlying assets for investments measured at NAV at December 31, 2017 and 2016, are as follows:

<i>December 31,</i>	2017	2016
Private equity:		
Buyout partnerships	47 %	45 %
Venture capital	46	50
Special situations	7	5
Real estate - multifamily	22	50
Real estate - diversified	78	50
Hedge fund:		
Common equities and fixed income	65	60
Derivatives	35	34
Fund of funds	-	6

#### 4. Office Equipment, Computer Hardware and Software

Office equipment, computer hardware and software consists of the following at:

<i>December 31,</i>	2017	2016
Software	\$ 584,496	\$ 584,496
Equipment	1,524,518	1,525,469
Furniture and fixtures	57,899	56,422
Business Enterprise System	7,930,849	7,930,849
	10,097,762	10,097,236
Less: accumulated depreciation	(4,710,967)	(3,509,245)
<b>Total</b>	<b>\$ 5,386,795</b>	<b>\$ 6,587,991</b>

#### 5. Restricted Net Assets

Temporarily restricted net assets consist of cash, investments and pledges receivable and are subject to donor-imposed stipulations at December 31, 2017 and 2016. Temporarily restricted net asset balances held for the following purposes were:

<i>December 31,</i>	2017	2016
Annual Fund Campaign Contributions	\$ 1,624,067	\$ 1,707,352
MAJ Hugh Boyd Casey Memorial Award	25,664	24,529
Pentagon Scholarship Fund	9,070,943	8,735,124
	\$ 10,720,674	\$ 10,467,005

# Army Emergency Relief

## Notes to Financial Statements

Permanently restricted net assets consist of cash and investments and are subject to donor-imposed stipulations that they be retained and invested permanently by AER. The donors require AER to use all or part of the investment return on these net assets for specified or unspecified purposes.

Permanently restricted net asset balances held for the following purposes were:

<i>December 31,</i>	2017	2016
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 Scholarship 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
	<b>\$ 1,800,792</b>	<b>\$ 1,800,792</b>

During the years ended December 31, 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donor or by the passage of time, as follows:

<i>December 31:</i>	2017	2016
Purpose restrictions:		
Scholarships	\$ 327,101	\$ 236,431
Hurricane relief	18,598	-
Widows	5,371	2,946
Wounded Warriors	2,500	-
MAJ Hugh Boyd Casey Memorial Award	500	500
Time restrictions:		
Annual fund campaign	1,707,352	1,792,017
	<b>\$ 2,061,422</b>	<b>\$ 2,031,894</b>

# Army Emergency Relief

## Notes to Financial Statements

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### 6. Functional Expenses

The following is a detail of expenses by function as required by FASB ASC 958-205, *Financial Statements of Not-for-Profit Organizations*, which incorporates both operating expenses and administrative expenses by function.

<i>December 31:</i>	2017	2016
Program	\$ 27,080,867	\$ 24,056,891
Management and General	2,850,200	3,615,618
Fundraising	818,436	1,058,516
<b>Total expenses</b>	<b>\$ 30,749,503</b>	<b>\$ 28,731,025</b>

The expenses of AER are recorded on a functional basis. AER has three main services: program, management and general, and fundraising. Operating costs that are specifically identifiable with the administration of the program are charged to the program, and those specifically identifiable to fundraising are charged to fundraising. Other operating costs that are shared among the three categories, but are not specifically identifiable, are allocated based on direct labor hours or direct labor dollars.

**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.

**Fundraising** – Fundraising 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.

### 7. Retirement and Pension Plans

All AER full-time employees employed by AER prior to December 31, 2017, are eligible to participate in the retirement plan for employees of The United States Army Non-appropriated Fund (NAF). Employee and employer contributions are based on a percentage of salary. The employer contribution percentage was 7.6% for 2017 and 2016. AER’s contributions to the NAF retirement plan charged to expense were \$168,973 and \$173,112 during 2017 and 2016, respectively, and are included in the accompanying statements of activities as salaries and benefits. Participation in the NAF retirement plan began in 1966. In November 2017, AER ceased enrolling employees joining AER after January 1, 2018 in the NAF Retirement Plan.

# Army Emergency Relief

## Notes to Financial Statements

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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 \$120,123 and \$138,088 during 2017 and 2016, respectively, and are included in the accompanying statements of activities as salaries and benefits.

### **8. Gifts-in-Kind**

Gifts-in-kind are noncash contributions received from donors. AER receives in-kind gifts in the form of office space and furniture. Contributions revenue recognized by AER for the years ended December 31, 2017 and 2016, were \$612,351 and \$532,321, 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.

### **9. Line of Credit**

In March 2003, AER opened a line of credit in the amount of \$10,000,000 with The Northern Trust Company. In March of 2006 the line of credit was increased to \$25,000,000. 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, 2017 and 2016. AER did not incur any interest expense for the years ended December 31, 2017 and 2016. On October 31, 2017, the line of credit expired and AER entered into an uncommitted revolving loan with The Northern Trust Company with similar terms to the line of credit, extending through October 30, 2018, in the amount of \$25,000,000.

### **10. Subsequent Events**

In preparing the financial statements, AER has evaluated events and transactions for potential recognition or disclosure through May 10, 2018, which is the date the financial statements were available to be issued. AER is not aware of any subsequent events that would require recognition or disclosure in the financial statements.



## Supplementary Information

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# Army Emergency Relief

## Schedules of Functional Expenses

*Year ended December 31, 2017*

	Program	Management and General	Fundraising	Total
Grants	\$ 10,410,557	\$ -	\$ -	\$ 10,410,557
Children's scholarships	7,457,934	-	-	7,457,934
Spouse scholarships	1,069,280	-	-	1,069,280
Pentagon victims scholarships	292,309	-	-	292,309
Provision for uncollectable loans	2,666,920	-	-	2,666,920
Salaries and benefits	2,018,535	838,493	225,874	3,082,902
Payroll taxes	103,592	43,226	11,636	158,454
Professional services	-	214,189	-	214,189
Collection expenses	63,103	-	-	63,103
Custodian and investment counsel fees	44,805	1,033,085	-	1,077,890
Publicity expenses	-	39,563	10,759	50,322
Office administration	950,443	249,059	311,027	1,510,529
Bank expense	72,883	-	-	72,883
Information technology	695,196	139,008	54,498	888,702
Travel expense	-	20,846	-	20,846
Depreciation	948,559	82,098	177,892	1,208,549
Insurance and blanket bond	-	75,763	-	75,763
Staff training	286,751	-	-	286,751
Income tax expense	-	100,000	-	100,000
Sundry office expenses	-	14,870	26,750	41,620
<b>Total expenses</b>	<b>\$ 27,080,867</b>	<b>\$ 2,850,200</b>	<b>\$ 818,436</b>	<b>\$ 30,749,503</b>

*Year ended December 31, 2016*

	Program	Management and General	Fundraising	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 uncollectable 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
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
<b>Total expenses</b>	<b>\$ 24,056,891</b>	<b>\$ 3,615,618</b>	<b>\$ 1,058,516</b>	<b>\$ 28,731,025</b>