Army Emergency Relief

Financial Statements
Years Ended December 31, 2018 and 2017

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Contents

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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 statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

May 13, 2019

Financial Statements

Army Emergency Relief

Statements of Financial Position

December 31,		**2018**		2017
Assets				
Cash and cash equivalents	**$**	**17,284,757**	$	6,509,360
Pledges receivable – net of allowance for uncollectible pledges of $62,239 in 2018 and $74,268 in 2017, respectively		**1,658,054**		1,624,067
Receivable from sale of investments		**7,182,072**		-
Investments		**238,635,818**		286,327,537
Accrued investment income receivable		**229,287**		479,747
Loans receivable – net of allowance for doubtful loans of $2,960,290 in 2018 and $2,807,099 in 2017, respectively		**41,753,990**		43,800,497
Prepaid charges and other assets		**347,349**		253,708
Office equipment, computer hardware and software, net		**4,288,281**		5,386,795
Total assets	**$**	**311,379,608**	$	344,381,711
Liabilities and net assets				
Liabilities				
Accounts payable and accrued liabilities	**$**	**1,066,800**	$	1,267,078
Commitments and contingencies				
Net assets without donor restrictions		**297,862,512**		330,593,167
Net assets with donor restrictions		**12,450,296**		12,521,466
Total net assets		**310,312,808**		343,114,633
Total liabilities and net assets	**$**	**311,379,608**	$	344,381,711

See accompanying notes to financial statements.

Army Emergency Relief

Statement of Activites

Year ended December 31,	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Revenue, gains and other support			
Annual fund campaign contributions	$ 9,283,796	$ 1,658,054	$ 10,941,850
Other contributions	905,557	2,360	907,917
Investment return, net	(18,036,568)	489,061	(17,547,507)
Net assets released from			
Satisfaction of program restrictions	2,220,645	(2,220,645)	-
Total revenue, gains and other	(5,626,570)	(71,170)	(5,697,740)
Expenses			
Program	24,954,285	-	24,954,285
Supporting services			
Management and general	1,216,598	-	1,216,598
Fundraising	933,202	-	933,202
Total supporting services	2,149,800	-	2,149,800
Total expenses	27,104,085	-	27,104,085
Change in net assets	(32,730,655)	(71,170)	(32,801,825)
Net assets, beginning of year	330,593,167	12,521,466	343,114,633
Net assets, end of year	$ 297,862,512	$ 12,450,296	$310,312,808

See accompanying notes to financial statements.

Army Emergency Relief

Statement of Activites

Year ended December 31,	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains, and other support			
Annual fund campaign contributions	$ 7,625,551	$ 1,624,067	$ 9,249,618
Other contributions	858,863	21,098	879,961
Investment return, net	41,489,621	669,926	42,159,547
Net assets released from restrictions:			
Satisfaction of program restrictions	2,061,422	(2,061,422)	-
Total revenue, gains, and other support	52,035,457	253,669	52,289,126
Expenses			
Program	27,036,062	-	27,036,062
Supporting services			
Management and general	1,817,115	-	1,817,115
Fundraising	818,436	-	818,436
Total supporting services	2,635,551	-	2,635,551
Total expenses	29,671,613	-	29,671,613
Change in net assets	22,363,844	253,669	22,617,513
Net assets, beginning of year	308,229,323	12,267,797	320,497,120
Net assets, end of year	$ 330,593,167	$ 12,521,466	$ 343,114,633

See accompanying notes to financial statements.

Army Emergency Relief

Statement of Functional Expenses

Year ended December 31, 2018

	Program	Mangement and General	Fundraising	Total Supporting Services	Total
Grants	$ 7,952,247	$ -	$ -	$ -	$ 7,952,247
Children's scholarships	6,569,705	-	-	-	6,569,705
Spouse scholarships	1,601,783	-	-	-	1,601,783
Pentagon victims scholarships	566,207	-	-	-	566,207
Provision for uncollectible loans	3,113,482	-	-	-	3,113,482
Salaries and benefits	2,408,502	735,334	289,040	1,024,374	3,432,876
Payroll taxes	129,263	39,523	15,556	55,079	184,342
Professional services	-	73,794	-	73,794	73,794
Collection expenses	80,174	-	-	-	80,174
Publicity expenses	15,397	40,769	24,830	65,599	80,996
Office administration	919,932	105,432	372,263	477,695	1,397,627
Bank expense	76,916	-	-	-	76,916
Information technology	445,587	42,599	21,823	64,422	510,009
Travel expense	13,281	24,504	1,757	26,261	39,542
Depreciation and amortization	919,869	56,402	175,207	231,609	1,151,478
Insurance and blanket bond	-	81,225	-	81,225	81,225
Staff training	141,940	-	-	-	141,940
Sundry office expenses	-	17,016	32,726	49,742	49,742
Total expenses	$ 24,954,285	$ 1,216,598	$ 933,202	$ 2,149,800	$ 27,104,085

See accompanying notes to financial statements.

Army Emergency Relief

Statement of Functional Expenses

Year ended December 31, 2017

	Program	Mangement and General	Fundraising	Total Supporting Services	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 uncollectible loans	2,666,920	-	-	-	2,666,920
Salaries and benefits	2,018,535	838,493	225,874	1,064,367	3,082,902
Payroll taxes	103,592	43,226	11,636	54,862	158,454
Professional services	-	214,189	-	214,189	214,189
Collection expenses	63,103	-	-	-	63,103
Publicity expenses	-	39,563	10,759	50,322	50,322
Office administration	950,443	249,059	311,027	560,086	1,510,529
Bank expense	72,883	-	-	-	72,883
Information technology	695,196	139,008	54,498	193,506	888,702
Travel expense	-	20,846	-	20,846	20,846
Depreciation and amortization	948,559	82,098	177,892	259,990	1,208,549
Insurance and blanket bond	-	75,763	-	75,763	75,763
Staff training	286,751	-	-	-	286,751
Income tax expense	-	100,000	-	100,000	100,000
Sundry office expenses	-	14,870	26,750	41,620	41,620
Total expenses	$ 27,036,062	$ 1,817,115	$ 818,436	$ 2,635,551	$ 29,671,613

See accompanying notes to financial statements.

Army Emergency Relief

Statements of Cash Flows

Years ended December 31,	**2018**	2017
Cash flows from operating activities:		
Cash receipts from		
Loan repayments	**$ 49,915,102**	$ 50,046,425
Annual fund campaign	**10,908,397**	9,272,036
Other contributions	**36,525**	46,119
Interest income	**1,785,054**	2,170,134
Dividends	**2,097,832**	2,987,493
Total cash receipts	**64,742,910**	64,522,207
Cash disbursements for		
Loans	**(50,623,698)**	(51,878,949)
Grants and scholarships	**(16,689,942)**	(19,230,080)
Administrative expenses	**(5,930,623)**	(5,963,240)
Investment expenses	**(764,236)**	(1,077,890)
Total cash disbursements	**(74,008,499)**	(78,150,159)
Net cash used in operating activities	**(9,265,589)**	(13,627,952)
Cash flows from investing activities:		
Cash receipts for investments sales	**97,239,172**	136,635,615
Total cash receipts	**97,239,172**	136,635,615
Cash disbursements for		
Investment purchases	**(77,145,222)**	(127,575,576)
Purchases of office equipment, computer hardware and	**(52,964)**	(7,353)
Total cash disbursements	**(77,198,186)**	(127,582,929)
Net cash provided by investing activities	**20,040,986**	9,052,686
Net increase (decrease) in cash and cash equivalents	**10,775,397**	(4,575,266)
Cash and cash equivalents, beginning of year	**6,509,360**	11,084,626
Cash and cash equivalents, end of year	**$ 17,284,757**	$ 6,509,360
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	**$(32,801,825)**	$ 22,617,513
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**1,151,478**	1,208,549
Provision for uncollectable loans	**3,113,482**	2,666,920
Net realized and unrealized gains on investments	**20,415,697**	(38,331,826)
Decrease (Increase) in assets:		
Pledges receivable	**(33,987)**	22,272
Accrued investment income receivable	**250,460**	251,228
Loans receivable	**(1,066,975)**	(1,549,100)
Prepaid charges and other assets	**(93,641)**	(77,974)
(Decrease) Increase in liabilities		
Accounts payable and accrued liabilities	**(200,278)**	(435,534)
Net cash used in operating activities:	**$ (9,265,589)**	$ (13,627,952)

See accompanying notes to financial statements.

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 net assets without donor restrictions and net assets with donor restrictions. As of December 31, 2018 and 2017, and for the years then ended, AER has recorded activities in the following net asset classes:

Without donor restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may include both designated and undesignated funds. There are no designated funds as of December 31, 2018 or 2017.

With donor restrictions - 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, restricted net assets are reclassified to without restrictions 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. Net assets with donor restrictions also include cash and investments invested in perpetuity that neither expire by the passage of time, nor can be fulfilled or otherwise removed by 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.

Pledges Receivable

As of December 31, 2018 and 2017, 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, 2018 and 2017, were $1,658,054 and $1,624,067, 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 $205,600 and $800,000 at December 31, 2018 and 2017, 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, 2018 and 2017.

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. The discount computed for 2018 and 2017 was not material and has not been recorded in the accompanying financial statements.

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 and amortization 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 2018, AER had an estimated tax expense of $42,000 resulting from approximately $200,000 in Unrelated Business Taxable Income (UBTI) by four of its portfolio funds. In 2017, AER had an estimated tax expense of $100,000 resulting from approximately $294,000 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.

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 of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (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 adoption of this new standard impacted the presentation of the net assets classes and expanded the footnote disclosures as required. AER has opted to present the liquidity and availability disclosure for 2018 only as permitted in the ASU. The total net assets and changes in the net assets were not impacted.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued 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 2016-15, *Statement of Cash Flows*. The update standardizes how certain transactions should be classified in the statement of cash flows. The guidance is effective for 2019. Management has determined this new standard has no significant impact on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update clarifies the accounting guidance for making or receiving contributions. The ASU provides a framework for evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance. The new guidance will likely result in more grants and contracts being accounted for as either contributions or conditional contributions (the ASU addresses how to make this distinction) rather than exchange transactions compared to current practice. For contributions received the amendments become effective for AER for annual periods beginning after December 15, 2018. For contributions made the amendments become effective for annual periods beginning after December 15, 2019. Management is in the process of assessing the impact this new standard will have on the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (Topic 820). The update modifies the disclosure requirements for fair value measurements required under ASC 820. Those modifications include the removal and addition of disclosure requirements as well as clarifying specific disclosure requirements. The amendments become effective for AER for fiscal years beginning after December 15, 2019. AER is permitted to early adopt all disclosure requirements in the ASU or early adopt only the removed and modified disclosures and delay adoption of the additional disclosures until their effective date. Management is in the process of assessing the impact this new standard will have on the financial statements.

2. Liquidity and Availability of Resources

AER's financial assets available within one year of the statements of financial position date for general expenditure without donor or other restrictions limiting their use are as follows:

December 31,	**2018**
Cash and cash equivalents	**$ 17,284,757**
Pledges receivable	**1,658,054**
Receivables from sale of investments	**7,182,072**
Short term investments	**196,947,705**
Accrued investment income receivable	**229,287**
Loans receivable	**41,611,109**
Total	**$ 264,912,984**

AER's liquidity needs are met in three ways: donations; loan repayments; and spending from investment assets. AER has a strategic goal of reducing its draw on investment assets to 3% of invested assets by 2021: approximately $8,500,000. The projected 2019 investment draw however, is 6% ($17,000,000). 2019 donations however are expected to grow to $12,100,000.

Of AER's $238,635,818 in financial investments as of December 31, 2018, $196,947,705 were liquid and redeemable within one year. Liquid assets included U.S. Treasury and federal agencies, all corporate bonds and notes, all preferred and common stock, and hedge fund investments. AER's hedge fund investments of $45,836,705 were all redeemable on at least a quarterly basis and require no more than a 90 day notice to fully redeem AER's investment so all AER hedge fund investments are considered liquid. Real estate investments of $5,355,879 and private equity investments of $35,912,153 were not assessed as liquid as these investments involve legally contractual commitments of at least a year as of December 31, 2018, with a significant portion of these financial assets being committed for more than 5 years (See Note 3, and Note 4 for disclosures about investments and statements of financial position for asset values).

Of AER's gross loans receivable of $44,714,280 on December 31, 2018, approximately $41,611,109 can be expected to be repaid in 2019 and are considered liquid. This estimate is based on a 5-year uncollectable rate of 6.94% and consideration of loan repayment terms.

To help manage unanticipated liquidity needs AER has an uncommitted revolving loan to the line of credit in the amount of $25,000,000, which it could draw upon and could be made available for current operations, if necessary.

3. Investments

Investments consist of the following at:

December 31,	**2018**	2017
U.S. Treasury and federal agencies	**$ 5,765,752**	$ 8,656,229
Corporate bonds and notes	**15,692,780**	20,518,728
Preferred and common stock	**129,652,468**	180,053,657
Other investments	**87,524,818**	77,098,923
Total investments	**$ 238,635,818**	$ 286,327,537

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

	2018	2017
Interest and dividends:		
U.S. Treasury and federal agencies	$ 224,791	$ 275,821
Corporate bonds and notes	1,022,124	1,499,821
Preferred and common stock	2,200,973	2,897,723
Private equity funds	208,229	117,915
Real estate funds	9,872	32,904
Cash and cash equivalents	103,090	81,427
Total interest and dividends	3,769,079	4,905,611
Realized gains (losses) on investments:		
U.S. Treasury and federal agencies	125,479	190,125
Corporate bonds and notes	(690,438)	438,006
Preferred and common stock	10,254,717	13,053,812
Private equity funds	4,353,577	3,927,610
Real estate funds	(542,260)	100,337
Hedge funds	128,586	499,634
Net realized gains on investments	13,629,661	18,209,524
Unrealized (losses) gains on investments:		
U.S. Treasury and federal agencies	(357,023)	(161,988)
Corporate bonds and notes	(562,136)	(66,925)
Preferred and common stock	(30,603,825)	19,660,798
Private equity funds	(1,531,493)	(2,827,069)
Real estate funds	344,448	335,039
Hedge funds	(1,335,329)	3,182,447
Net unrealized (losses) gains on investments	(34,045,358)	20,122,302
Investment expenses	(900,889)	(1,077,890)
Total investment return	$ (17,547,507)	$ 42,159,547

4. 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.

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.

The table below sets forth those assets measured at fair value as of December 31, 2018.

Description	Level 1	Level 2	Level 3	Investments Measured at NAV*	Total
U.S. Treasury and federal agencies	$ -	$ 5,765,752	$ -	$ -	$ 5,765,752
Corporate bonds and notes:					
Corporate bonds	-	4,377,422	-	-	4,377,422
Asset-backed securities	-	1,563,217	-	-	1,563,217
Commercial mortgage-backed securities	-	500,462	-	-	500,462
Municipal/provincial bonds	-	815,309	-	-	815,309
Non-government-backed collateralized mortgage obligations	-	176,769	-	-	176,769
Convertible bonds	-	-	-	8,259,601	8,259,601
Total corporate bonds and notes	-	7,433,179	-	8,259,601	15,692,780
Preferred and common stock:					
Domestic common stock	112,467,018	-	-	-	112,467,018
International common stock	17,185,450	-	-	-	17,185,450
Total preferred and common stock	129,652,468	-	-	-	129,652,468
Other investments:					
Private equity funds	-	-	-	35,912,153	35,912,153
Real estate funds	-	-	-	5,355,879	5,355,879
Hedge funds	-	-	-	45,836,705	45,836,705
Other	-	-	1,761	418,320	420,081
Total other investments	-	-	1,761	87,523,057	87,524,818
Total	$ 129,652,468	$ 13,198,931	$ 1,761	$ 95,782,658	$ 238,635,818

*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 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
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
Total	$ 180,024,708	$ 29,018,619	$ 1,960,723	$ 75,323,487	$ 286,327,537

*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.

For the years ended December 31, 2018 and 2017, 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, 2018 and 2017, AER had outstanding future funding commitments of approximately $63.9 million and $64.4 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.

As of December 31, 2018, AER had $8,259,601 invested in convertible bonds with the Loomis Sayles High Yield Full Discretion Trust Fund. This fund had daily liquidity: AER simply needs to provide Loomis a written request to withdrawal a certain amount of funds and Loomis would wire the funds to AER's cash account at Northern Trust the following regular business day. There are no future commitments for this fund.

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, 2018 and 2017. 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:

2018 AER Hedge Fund Fair Value Estimates, Terms and Conditions

		Fair Value	Redemption Frequency	Notice Period	Other Conditions*
Alphadyne International Fund	$	**4,161,881**	Monthly	60 days	1 yr soft lock (3%)
AQR Style Premia Fund		**2,855,348**	Monthly	15 days	
Asturias		**1,261,349**	Quarterly	60 days	1 yr soft lock (5%)
Autonomy Global Macro Fund		**2,765,871**	Monthly	60 days	1 yr soft lock (5%); 10% investor level gate
Graham Tactical Trend Segregated Fund		**2,434,075**	Monthly	3 days	
BBCM		**4,303,000**	Quarterly	60 days	1 yr soft lock (6%); 50% investor level gate
HG Vora Special Opportunities Fund		**6,338,178**	Quarterly	90 days	1 yr soft lock (3%); 25% investor level gate
Marshall Wace Eureka		**6,168,954**	Monthly	30 days	
Nut Tree		**5,769,796**	Quarterly	75 days	1 yr soft lock (5%); 25% investor level gate
Old Orchard Credit		**4,008,880**	Quarterly	30 days	1 yr soft lock (3%)
Pelham Long-Short Fund		**3,743,641**	Monthly	90 days	1 yr hard lock
Varadero		**2,025,732**	Quarterly	90 days	1 yr hard lock; 25% investor level gate
Hedge funds – December 31, 2018	$	**45,836,705**			

*A "soft lock" allows investors (AER) to pull their 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 their funds out of a fund before the lock period ends under any conditions. All of AER's investments at the end of 2018 had passed their 1 year hard lock period but the soft lock periods for the BBCM, Varadero, and Old Orchard Credit funds will not pass until 4th quarter 2019.

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	15 Days	
Asturias		1,285,946	Quarterly	60 Days	1 yr soft lock (5%)
Autonomy Global Macro Fund		2,956,341	Monthly	60 Days	1 yr soft lock (5%); 10% investor level gate
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%)
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	1 yr soft lock (3%); 25% investor level gate
Marshall Wace Eureka		6,178,735	Monthly	30 Days	
Nut Tree		5,631,807	Quarterly	75 Days	1 yr soft lock (5%); 25% investor level gate
Pelham Long-Short Fund		4,336,261	Monthly	90 Days	1 yr hard 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			

*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 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 Tourbillion 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 48% and 74% of investments measured at NAV as of December 31, 2018 and 2017, 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 37% and 20% of investments measured at NAV as of December 31, 2018 and 2017, respectively, and include investments in buyout partnerships, venture capital, special situations, portfolio funds, and marketable securities. The real estate fund represents approximately 6% and 6% of the investments measured at NAV as of December 31, 2018 and 2017, respectively, and includes investments in office buildings, hotels, land, and multifamily housing units. The remaining NAV assets are composed of corporate bonds.

Investment allocations of the underlying assets for other investments measured at NAV at December 31, 2018 and 2017, are as follows:

December 31,	**2018**	2017
Private equity:		
Buyout partnerships	**42%**	47%
Venture capital	**38%**	46%
Special situations	**20%**	7%
Real estate:		
Multifamily	**19%**	22%
Diversified	**81%**	78%
Hedge fund:		
Common equities and fixed income	**73%**	65%
Derivatives	**27%**	35%

5. Office Equipment, Computer Hardware and Software

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

December 31,	**2018**	2017
Software	**$ 534,562**	$ 584,496
Equipment	**1,572,740**	1,524,518
Furniture and fixtures	**60,825**	57,899
Business Enterprise System	**7,930,849**	7,930,849
	10,098,976	10,097,762
Less: accumulated depreciation and amortization	**(5,810,695)**	(4,710,967)
Total	**$ 4,288,281**	$ 5,386,795

6. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of cash, investments, pledges receivable, and unexpended earnings on investments held in perpetuity. Donors require AER to use all or part of the investment return on investments held in perpetuity for specified or unspecified purposes. The components of net assets with donor restrictions as of December 31, 2018 and 2017, were as follows:

December 31,	**2018**	2017
Purpose or time-restricted		
Annual Fund Campaign Contributions	**$ 1,658,054**	$ 1,624,067
MAJ Hugh Boyd Casey Memorial Award	**26,882**	25,664
Pentagon Scholarship Fund	**8,964,568**	9,070,943
	10,649,504	10,720,674
Perpetual in nature		
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
	1,800,792	1,800,792
	$ 12,450,296	$ 12,521,466

During the years ended December 31, 2018 and 2017, 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:

December 31:	**2018**	2017
Purpose restrictions:		
Scholarships with donor restrictions	**$ 596,578**	$ 327,101
Hurricane relief	**-**	18,598
Widows	**-**	5,371
Wounded Warriors	**-**	2,500
MAJ Hugh Boyd Casey Memorial Award	**-**	500
Time restrictions:		
Annual fund campaign	**1,624,067**	1,707,352
	$ 2,220,645	$ 2,061,422

7. Functional Expenses

The expenses of AER are recorded on a functional basis. AER has three functional expense categories: 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.

AER's operations include the following program and supporting services:

Program — AER provides interest-free loans and grants to Active Duty Soldiers and Family members, Reserve and Army National Guard 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 no-interest loans (average of $1,500) these members of the Army team 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.

8. 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 2018 and 2017. AER's contributions to the NAF retirement plan charged to expense were $176,891 and $168,973 during 2018 and 2017, respectively, and are included in the accompanying statements of functional expense 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.

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 $152,046 and $120,123 during 2018 and 2017, respectively, and are included in the accompanying statements of functional expense as salaries and benefits.

9. 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, 2018 and 2017, were $614,094 and $612,351, respectively, and are included in other contributions in the statements of activities.

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.

10. 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, 2018 and 2017. AER did not incur any interest expense for the years ended December 31, 2018 and 2017. 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 29, 2019, in the amount of $25,000,000. AER did not use its $25,000,000 line of credit in 2018 and 2017.

11. Subsequent Events

In preparing the financial statements, AER has evaluated events and transactions for potential recognition or disclosure through May 13, 2019, 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.