Army Emergency Relief

Financial Statements
Years Ended December 31, 2019 and 2018

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.

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 statements of financial position as of December 31, 2019 and 2018, 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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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, 2019 and 2018, 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 11, 2020

Financial Statements

Army Emergency Relief

Statements of Financial Position

December 31,	**2019**	2018
Assets		
Cash and cash equivalents	**$ 12,191,775**	$ 17,284,757
Pledges receivable – net of allowance for uncollectible pledges of $32,010 in 2019 and $62,239 in 2018, respectively	**1,452,143**	1,658,054
Receivable from sale of investments	**6,403,944**	7,182,072
Investments	**274,522,436**	238,635,818
Accrued investment income receivable	**257,075**	229,287
Loans receivable – net of allowance for doubtful loans of $2,987,371 in 2019 and $2,960,290 in 2018, respectively	**43,690,192**	41,753,990
Prepaid charges and other assets	**325,803**	347,349
Office equipment, computer hardware and software, net	**3,346,333**	4,288,281
Total assets	**$ 342,189,701**	$ 311,379,608
Liabilities and net assets		
Liabilities		
Accounts payable and accrued liabilities	**$ 1,651,667**	$ 1,066,800
Commitments and contingencies		
Net assets		
Net assets without donor restrictions	**328,377,037**	297,862,512
Net assets with donor restrictions	**12,160,997**	12,450,296
Total net assets	**340,538,034**	310,312,808
Total liabilities and net assets	**$ 342,189,701**	$ 311,379,608

See accompanying notes to financial statements.

Army Emergency Relief

Statement of Activites

Year ended December 31,	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Annual fund campaign contributions	$ 8,547,136	$ 1,431,413	$ 9,978,549
Other contributions	843,145	1,100	844,245
Investment return, net	47,033,883	328,405	47,362,288
Net assets released from restrictions:			
Satisfaction of program restrictions	2,050,217	(2,050,217)	-
Total revenue, gains and other support	58,474,381	(289,299)	58,185,082
Expenses			
Program	25,632,595	-	25,632,595
Supporting services			
Management and general	1,570,929	-	1,570,929
Fundraising	756,332	-	756,332
Total supporting services	2,327,261	-	2,327,261
Total expenses	27,959,856	-	27,959,856
Change in net assets	30,514,525	(289,299)	30,225,226
Net assets, beginning of year	297,862,512	12,450,296	310,312,808
Net assets, end of year	$ 328,377,037	$ 12,160,997	$ 340,538,034

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 restrictions:			
Satisfaction of program restrictions	2,220,645	(2,220,645)	-
Total revenue, gains and other support	(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 Functional Expenses

Year ended December 31, 2019

	Program	Mangement and General	Fundraising	Total Supporting Services	Total
Grants	$ 9,453,476	$ -	$ -	$ -	$ 9,453,476
Children's scholarships	5,874,860	-	-	-	5,874,860
Spouse scholarships	1,392,783	-	-	-	1,392,783
Pentagon victims scholarships	371,650	-	-	-	371,650
Provision for uncollectible loans	2,412,263	-	-	-	2,412,263
Salaries and benefits	2,673,064	817,330	294,996	1,112,326	3,785,390
Payroll taxes	143,018	43,510	15,717	59,227	202,245
Professional services	-	96,784	-	96,784	96,784
Collection expenses	58,957	-	-	-	58,957
Publicity expenses	29,341	62,203	46,565	108,768	138,109
Office administration	942,859	266,128	249,121	515,249	1,458,108
Bank expense	55,961	-	-	-	55,961
Information technology	937,489	78,118	36,311	114,429	1,051,918
Travel expense	15,491	38,262	7,752	46,014	61,505
Depreciation and amortization	965,269	64,530	71,487	136,017	1,101,286
Insurance and blanket bond	-	78,557	-	78,557	78,557
Staff training	306,114	-	-	-	306,114
Sundry office expenses	-	25,507	34,383	59,890	59,890
Total expenses	$ 25,632,595	$ 1,570,929	$ 756,332	$ 2,327,261	$ 27,959,856

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

Statements of Cash Flows

Years ended December 31,	**2019**	2018
Cash flows from operating activities:		
Cash receipts from		
Loan repayments	**$ 49,256,300**	$ 49,915,102
Annual fund campaign	**10,185,433**	10,908,397
Other contributions	**15,976**	36,525
Interest income	**1,152,239**	1,785,054
Dividends	**2,087,451**	2,097,832
Total cash receipts	**62,697,399**	64,742,910
Cash disbursements for		
Loans	**(51,184,246)**	(50,623,698)
Grants and scholarships	**(17,092,769)**	(16,689,942)
Administrative expenses	**(8,476,618)**	(5,930,623)
Investment expenses	**(526,253)**	(764,236)
Total cash disbursements	**(77,279,886)**	(74,008,499)
Net cash used in operating activities	**(14,582,487)**	(9,265,589)
Cash flows from investing activities:		
Cash receipts for investments sales	**71,361,742**	97,239,172
Total cash receipts	**71,361,742**	97,239,172
Cash disbursements for		
Investment purchases	**(61,712,899)**	(77,145,222)
Purchases of office equipment, computer hardware and software	**(159,338)**	(52,964)
Total cash disbursements	**(61,872,237)**	(77,198,186)
Net cash provided by investing activities	**9,489,505**	20,040,986
Net (decrease) increase in cash and cash equivalents	**(5,092,982)**	10,775,397
Cash and cash equivalents, beginning of year	**17,284,757**	6,509,360
Cash and cash equivalents, end of year	**$ 12,191,775**	$ 17,284,757

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, 2019 and 2018, 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, 2019 or 2018.

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, 2019 and 2018, 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, 2019 and 2018, were $1,452,143 and $1,658,054, 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 $600,600 and $205,600 at December 31, 2019 and 2018, 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, 2019 and 2018.

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 2019 and 2018 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 recognized as revenue, at fair value, on the earlier of the receipt of cash or an unconditional promise to give. Contributions which impose restrictions that are met in the same fiscal year the contribution is received are reported as increases in net assets without donor restrictions. Expirations of donor restrictions (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) in subsequent years are reported as “net assets released from donor restrictions” in the statements of activities. In accordance with Accounting Standards Update (ASU) 2018-08, there were no barriers noted for contributions recognized which would make such contributions conditional for years ended December 31, 2019 and 2018.

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 2019, AER did not incur any tax expense as it estimated it had sufficient net operating losses and associated deferred tax assets to offset any tax expense. 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. 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.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which entities expect to be entitled in exchange for those goods or services. The update also requires additional disclosure to enable readers of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. AER adopted this update, along with all subsequent amendments (collectively, "ASC 606") in 2019. For the years ended December 31, 2019 and 2018, there were no revenue contracts under the scope of this guidance.

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. Management adopted the new standard effective for the year ended December 31, 2019 with no impact to 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 standard clarified and improved current guidance by providing criteria for determining whether a nonprofit is receiving commensurate value in return for the resources transferred. The outcome of the analysis determines whether the contract or grant constitutes either a contribution or an exchange transaction (i.e., ASC 606). The guidance also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. AER adopted this update on a modified prospective basis. The adoption of this update did not materially impact the financial statements.

Recent Accounting Pronouncements Not Yet Adopted

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 statement of financial position date for general expenditure without donor or other restrictions limiting their use are as follows:

December 31,	**2019**	2018
Cash and cash equivalents	**$ 12,191,775**	$ 17,284,757
Pledges receivable	**1,452,143**	1,658,054
Receivables from sale of investments	**6,403,944**	7,182,072
Short term investments	**211,528,994**	196,947,705
Accrued investment income receivable	**257,075**	229,287
Loans receivable	**35,462,798**	41,611,109
Total	**$ 267,296,729**	$ 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 2020 investment draw however is projected to be 7% ($20,000,000) based on AER's 2020 donation projection of $11,100,000, operational expenses, and anticipated volume of assistance disbursements.

Of AER's total investments presented within the statements of financial position, $211,528,994 and $196,947,705 were liquid and redeemable within one year as of December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, AER's hedge funds of $46,903,578 and $45,836,705, respectively, were all redeemable on at least a quarterly basis and require no more than a 90-day notice to fully redeem AER's investment. Therefore, all AER hedge funds are considered liquid. For the years ended December 31, 2019 and 2018, real estate funds of $4,491,665 and $5,355,879, respectively, private equity funds of $58,352,248 and $35,912,153, respectively, and other investments of $149,529 and $420,081, respectively, were not assessed as liquid as these investments involve legally contractual commitments of at least a year. 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 loans receivable presented within the statements of financial position, approximately $35,462,798 and $41,611,109 can be expected to be repaid in 2020 and 2019, respectively, and are considered liquid. This estimate is based on a 5-year uncollectable rate of 7.4% 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,	2019	2018
U.S. Treasury and federal agencies	**$ 8,661,128**	$ 5,765,752
Corporate bonds and notes	**25,234,529**	15,692,780
Preferred and common stock	**130,729,759**	129,652,468
Other investments	**109,897,020**	87,524,818
Total investments	**$ 274,522,436**	$ 238,635,818

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

	2019	2018
Interest and dividends:		
U.S. Treasury and federal agencies	**$ 220,259**	$ 224,791
Corporate bonds and notes	**417,375**	1,022,124
Preferred and common stock	**2,080,685**	2,200,973
Private equity funds	**368,604**	208,229
Real estate funds	**4,051**	9,872
Cash and cash equivalents	**176,504**	103,090
Total interest and dividends	**3,267,478**	3,769,079
Realized gains (losses) on investments:		
U.S. Treasury and federal agencies	**370,301**	125,479
Corporate bonds and notes	**53,033**	(690,438)
Preferred and common stock	**5,585,507**	10,254,717
Private equity funds	**3,168,976**	4,353,577
Real estate funds	**441,416**	(542,260)
Hedge funds	**(264,519)**	128,586
Net realized gains on investments	**9,354,714**	13,629,661
Unrealized gains (losses) on investments:		
U.S. Treasury and federal agencies	**27,819**	(357,023)
Corporate bonds and notes	**1,966,387**	(562,136)
Preferred and common stock	**26,081,133**	(30,603,825)
Private equity funds	**3,060,503**	(1,531,493)
Real estate funds	**151,558**	344,448
Hedge funds	**4,577,634**	(1,335,329)
Net unrealized gains (losses) on investments	**35,865,034**	(34,045,358)
Investment expenses	**(1,124,938)**	(900,889)
Total investment return	**$ 47,362,288**	$ (17,547,507)

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, 2019.

Description	Level 1	Level 2	Level 3	Investments Measured at NAV*	Total
U.S. Treasury and federal agencies	$ -	$ 8,661,128	$ -	$ -	$ 8,661,128
Corporate bonds and notes:					
Corporate bonds	-	5,373,350	-	-	5,373,350
Asset-backed securities	-	2,623,962	-	-	2,623,962
Commercial mortgage-backed securities	-	1,230,545	-	-	1,230,545
Municipal/provincial bonds	-	1,281,429	-	-	1,281,429
Convertible bonds	-	-	-	14,725,243	14,725,243
Total corporate bonds and notes	-	10,509,286	-	14,725,243	25,234,529
Preferred and common stock:					
Domestic common stock	77,207,592	-	-	-	77,207,592
International common stock	53,522,167	-	-	-	53,522,167
Total preferred and common stock	130,729,759	-	-	-	130,729,759
Other investments:					
Private equity funds	-	-	-	58,352,248	58,352,248
Real estate funds	-	-	-	4,491,665	4,491,665
Hedge funds	-	-	-	46,903,578	46,903,578
Other	-	-	16,000	133,529	149,529
Total other investments	-	-	16,000	109,881,020	109,897,020
Total	$ 130,729,759	$ 19,170,414	$ 16,000	$ 124,606,263	$ 274,522,436

*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, 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.

For the years ended December 31, 2019 and 2018, 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, 2019 and 2018, AER had outstanding future funding commitments of approximately $59.3 million and $63.9 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.

As of December 31, 2019 and 2018, AER had $14,725,243 and $8,259,601, respectively, 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, 2019 and 2018. 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:

2019 AER Hedge Fund Fair Value Estimates, Terms and Conditions

	Fair Value	Redemption Frequency	Notice Period	Other Conditions*
Alphadyne International Fund	$ 4,488,076	Monthly	60 days	1 yr soft lock (3%)
Asturias Offshore Fund	1,498,649	Quarterly	60 days	1 yr soft lock (5%)
Autonomy Global Macro Fund	2,616,303	Monthly	60 days	1 yr soft lock (5%); 10% investor level gate
Broad Bay Capital Management Offshore Fund	4,434,665	Quarterly	60 days	1 yr soft lock (6%); 50% investor level gate
HG Vora Special Opportunities Fund	7,066,039	Quarterly	90 days	1 yr soft lock (3%); 25% investor level gate
Marshall Wace Eureka Fund	4,720,336	Monthly	30 days	
Nut Tree Offshore Fund	6,251,366	Quarterly	75 days	1 yr soft lock (5%); 25% investor level gate
Old Orchard Credit Fund	4,363,004	Quarterly	30 days	1 yr soft lock (3%)
Pelham Long-Short Fund	4,293,732	Monthly	90 days	1 yr hard lock
Pentwater Merger Arbitrage Fund	3,207,737	Monthly	92 days	
PFM Healthcare Offshore Fund	1,854,610	Quarterly	45 days	1 yr soft lock (5%)
Varadero Master Fund	2,109,061	Quarterly	90 days	1 yr hard lock; 25% investor level gate
Hedge funds – December 31, 2019	$ 46,903,578			

*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 2019 had passed their 1 year hard lock period but the soft lock periods for PFM Healthcare Offshore Fund will not pass until 4th quarter 2020.

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 Offshore Fund		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	
Broad Bay Capital Management Offshore Fund		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 Fund		6,168,954	Monthly	30 days	
Nut Tree Offshore Fund		5,769,796	Quarterly	75 days	1 yr soft lock (5%); 25% investor level gate
Old Orchard Credit Fund		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 Master Fund		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.

The Autonomy Global Macro Fund has implemented, for each shareholder, a 25% redemption limit 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 38% and 48% of investments measured at NAV as of December 31, 2019 and 2018, 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 47% and 37% of investments measured at NAV as of December 31, 2019 and 2018, respectively, and include investments in buyout partnerships, venture capital, special situations, portfolio funds, and marketable securities. The real estate funds represent approximately 4% and 6% of the investments measured at NAV as of December 31, 2019 and 2018, 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, 2019 and 2018, are as follows:

December 31,	**2019**	2018
Private equity:		
Buyout partnerships	**47 %**	42%
Venture capital	**31 %**	38%
Special situations	**22 %**	20%
Real estate:		
Multifamily	**1 %**	19%
Diversified	**99 %**	81%
Hedge fund:		
Common equities and fixed income	**85 %**	73%
Derivatives	**15 %**	27%

5. Office Equipment, Computer Hardware and Software

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

December 31,	**2019**	2018
Software	**$ 575,062**	$ 534,562
Equipment	**1,690,060**	1,572,740
Furniture and fixtures	**60,825**	60,825
Business Enterprise System	**7,930,849**	7,930,849
	10,256,796	10,098,976
Less: accumulated depreciation and amortization	**(6,910,463)**	(5,810,695)
Total	**$ 3,346,333**	$ 4,288,281

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, 2019 and 2018, were as follows:

December 31,	**2019**	2018
Purpose or time-restricted		
Annual Fund Campaign Contributions	**$ 1,431,413**	$ 1,658,054
MAJ Hugh Boyd Casey Memorial Award	**27,316**	26,882
Pentagon Scholarship Fund	**8,901,476**	8,964,568
	10,360,205	10,649,504
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
Total	**$ 12,160,997**	$ 12,450,296

During the years ended December 31, 2019 and 2018, 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:	**2019**	2018
Purpose restrictions:		
Scholarships with donor restrictions	**$ 389,094**	$ 596,578
Widows	**2,569**	-
MAJ Hugh Boyd Casey Memorial Award	**500**	-
Time restrictions:		
Annual fund campaign	**1,658,054**	1,624,067
Total	**$ 2,050,217**	$ 2,220,645

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 2019 and 2018. AER's contributions to the NAF retirement plan charged to expense were $179,878 and $176,891 during 2019 and 2018, 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 $179,435 and $152,046 during 2019 and 2018, 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, 2019 and 2018, were $602,525 and $614,094, 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, 2019 and 2018. AER did not incur any interest expense for the years ended December 31, 2019 and 2018. 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 28, 2020, in the amount of $25,000,000. AER did not use its $25,000,000 line of credit in 2019 and 2018.

11. Subsequent Events

On March 11, 2020 the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. As of the date of issuance, this public health emergency stands to substantially impact the global economy, including significant volatility in the financial markets. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. As such, our financial condition and liquidity may be negatively impacted for the fiscal year 2020. As of the date of this report, our investment values have experienced a temporary decline of 8%.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. Management continues to examine the impacts this CARES Act may have on AER's business.

AER has evaluated events and transactions for potential recognition or disclosure through May 11, 2020, which is the date the financial statements were available to be issued. There were no events noted that required adjustments to or disclosure in these financial statements, except as discussed above.