



Army Emergency Relief

Financial Statements
Years Ended December 31, 2020 and 2019

Army Emergency Relief

Financial Statements
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Army Emergency Relief

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Independent Auditor's Report

To the Board of Managers
Army Emergency Relief
Arlington, Virginia

Opinion

We have audited the financial statements of **Army Emergency Relief (AER)**, which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AER as of December 31, 2020 and 2019, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AER and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AER's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a



material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AER's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AER's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

May 13, 2021

Financial Statements

Army Emergency Relief
Statements of Financial Position

<i>December 31,</i>	2020	2019
Assets		
Cash and cash equivalents	\$ 15,223,062	\$ 12,191,775
Pledges receivable - net of allowance for uncollectible pledges of \$45,180 in 2020 and \$32,010 in 2019, respectively	1,298,116	1,452,143
Receivable from sale of investments	797,716	6,403,944
Investments	328,863,154	274,522,436
Accrued investment income receivable	348,036	257,075
Loans receivable - net of allowance for doubtful loans of \$2,375,249 in 2020 and \$2,987,371 in 2019, respectively	27,227,406	43,690,192
Prepaid charges and other assets	547,459	325,803
Office equipment, computer hardware and software, net	1,941,187	3,346,333
Total assets	\$ 376,246,136	\$ 342,189,701
Liabilities and net assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 1,646,512	\$ 1,651,667
Commitments and contingencies		
Net assets		
Net assets without donor restrictions	358,411,492	328,377,037
Net assets with donor restrictions	16,188,132	12,160,997
Total net assets	374,599,624	340,538,034
Total liabilities and net assets	\$ 376,246,136	\$ 342,189,701

See accompanying notes to financial statements.

Army Emergency Relief

Statement of Activites

Year ended December 31,	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Annual fund campaign contributions	\$ 7,406,817	\$ 1,349,999	\$ 8,756,816
Other contributions	1,395,179	6,751,935	8,147,114
Investment return, net	51,149,094	34,881	51,183,975
Net assets released from restrictions:			
Satisfaction of program and time restrictions	4,109,680	(4,109,680)	-
Total revenue, gains and other support	64,060,770	4,027,135	68,087,905
Expenses			
Program	31,308,389	-	31,308,389
Supporting services			
Management and general	1,722,506	-	1,722,506
Fundraising	995,420	-	995,420
Total supporting services	2,717,926	-	2,717,926
Total expenses	34,026,315	-	34,026,315
Change in net assets	30,034,455	4,027,135	34,061,590
Net assets, beginning of year	328,377,037	12,160,997	340,538,034
Net assets, end of year	\$ 358,411,492	\$ 16,188,132	\$ 374,599,624

See accompanying notes to financial statements.

Army Emergency Relief

Statement of Activities

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 and time 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 Functional Expenses

Year ended December 31, 2020

	Program	Mangement and General	Fundraising	Total Supporting Services	Total
Grants	\$ 9,103,513	\$ -	\$ -	\$ -	\$ 9,103,513
Children's scholarships	11,285,630	-	-	-	11,285,630
Spouse scholarships	3,007,729	-	-	-	3,007,729
Pentagon victims scholarships	282,275	-	-	-	282,275
Provision for uncollectible loans	683,168	-	-	-	683,168
Salaries and benefits	2,726,297	936,968	334,823	1,271,791	3,998,088
Payroll taxes	147,004	50,539	18,079	68,618	215,622
Professional services	-	84,331	-	84,331	84,331
Collection expenses	57,068	-	-	-	57,068
Publicity expenses	3,046	29,665	29,306	58,971	62,017
Office administration	844,980	291,809	354,504	646,313	1,491,293
Bank expense	32,265	-	-	-	32,265
Information technology	1,252,657	157,444	77,809	235,253	1,487,910
Travel expense	4,051	574	8,432	9,006	13,057
Depreciation and amortization	1,873,262	87,570	134,373	221,943	2,095,205
Insurance and blanket bond	-	77,199	-	77,199	77,199
Staff training	5,444	-	-	-	5,444
Sundry office expenses	-	3,316	38,094	41,410	41,410
Interest expense	-	3,091	-	3,091	3,091
Total expenses	\$ 31,308,389	\$ 1,722,506	\$ 995,420	\$ 2,717,926	\$ 34,026,315

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

Statements of Cash Flows

Years ended December 31,	2020	2019
Cash flows from operating activities:		
Cash receipts from		
Loan repayments	\$ 44,897,026	\$ 49,256,300
Annual fund campaign	8,911,050	10,185,433
Other contributions	7,061,357	15,976
Interest income	1,046,914	1,152,239
Dividends	1,700,340	2,087,451
Total cash receipts	63,616,687	62,697,399
Cash disbursements for		
Loans	(28,567,058)	(51,184,246)
Grants and scholarships	(23,679,147)	(17,092,769)
Administrative expenses	(7,172,368)	(8,476,618)
Investment expenses	(1,003,860)	(526,253)
Interest expense	(3,091)	-
Total cash disbursements	(60,425,524)	(77,279,886)
Net cash provided by (used in) operating activities	3,191,163	(14,582,487)
Cash flows from investing activities:		
Cash receipts from		
Cash receipts for investments sales	93,157,481	71,361,742
Total cash receipts	93,157,481	71,361,742
Cash disbursements for		
Investment purchases	(92,627,298)	(61,712,899)
Purchases of office equipment, computer hardware and software	(690,059)	(159,338)
Total cash disbursements	(93,317,357)	(61,872,237)
Net cash (used in) provided by investing activities	(159,876)	9,489,505
Cash flows from financing activities:		
Cash receipts from		
Borrowing from line of credit	1,000,000	-
Total cash receipts	1,000,000	-
Cash disbursements for		
Repayment of line of credit	(1,000,000)	-
Total cash receipts	(1,000,000)	-
Net cash (used in) provided by investing activities	-	-
Net increase (decrease) in cash and cash equivalents	3,031,287	(5,092,982)
Cash and cash equivalents, beginning of year	12,191,775	17,284,757
Cash and cash equivalents, end of year	\$ 15,223,062	\$ 12,191,775

See accompanying notes to financial statements.

Army Emergency Relief

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, 2020 and 2019, 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, 2020 and 2019.

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, 2020 and 2019, 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, 2020 and 2019, were \$1,298,116 and \$1,452,143, respectively, and are recorded as pledges receivable in the statements of financial position.

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Notes to Financial Statements

Conditional Promises to Give and Intentions

Contributors have informed AER of intentions to give of approximately \$383,000 and \$600,600 at December 31, 2020 and 2019, 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, 2020 and 2019.

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. Loans 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 loans receivable are increased or when accounts written off exceed available allowances. The discount computed for 2020 and 2019 was not material and has not been recorded in the accompanying financial statements.

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Notes to 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

Effectively November 1, 2020, AER's policy is to capitalize major additions and improvements over \$2,000. In the prior year the policy was \$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. During fiscal year 2020, depreciation expense was accelerated on the Business Enterprise System as management plans to retire the system in 2021. 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, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, there were no barriers noted for contributions not met, which would make such contributions conditional for years ended December 31, 2020 and 2019.

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. AER did not incur tax expense as it estimated it had sufficient net operating losses and associated deferred tax assets to offset any tax expense in 2020 and 2019, respectively.

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

Army Emergency Relief

Notes to Financial Statements

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 Accounting Pronouncement 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 became effective for AER's fiscal year 2020. The adoption of this update did not materially impact the financial statements.

Accounting Pronouncement not Adopted

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets and requires additional disclosures related to contributed nonfinancial assets. This ASU must be applied on a retrospective basis and is effective for AER's fiscal year ending December 31, 2022. Management is currently evaluating the impact of this ASU on the financial statements.

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Notes to 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:

<i>December 31,</i>	2020	2019
Cash and cash equivalents	\$ 15,223,062	\$ 12,191,775
Pledges receivable	1,298,116	1,452,143
Receivables from sale of investments	797,716	6,403,944
Short term investments	226,726,001	211,528,994
Accrued investment income receivable	348,036	257,075
Loans receivable	20,420,555	35,462,798
Total	\$ 264,813,486	\$ 267,296,729

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 2025: approximately \$8,500,000. The projected 2021 investment draw however is projected to be 7.5% (\$25,000,000) based on AER's 2021 donation projection of \$11,100,000, operational expenses of \$9,200,000, and anticipated volume of assistance disbursements.

Of AER's total investments presented within the statements of financial position, \$226,726,001 and \$211,528,994 were liquid and redeemable within one year as of December 31, 2020 and 2019, respectively. For the years ended December 31, 2020 and 2019, AER's hedge funds of \$39,753,907 and \$46,903,578, 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, 2020 and 2019, real estate funds of \$1,993,561 and \$4,491,665, respectively, private equity funds of \$100,127,592 and \$58,352,248, respectively, and other investments of \$16,000 and \$149,529, 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 \$20,420,555 and \$35,462,798 can be expected to be repaid in 2021 and 2020, respectively, and are considered liquid. This estimate is based on a 5-year uncollectable rate of 5.4% 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.

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Notes to Financial Statements

3. Investments

Investments consist of the following at:

<i>December 31,</i>	2020	2019
U.S. Treasury and federal agencies	\$ 9,186,189	\$ 8,661,128
Corporate bonds and notes	30,778,463	25,234,529
Preferred and common stock	147,007,442	130,729,759
Other investments	141,891,060	109,897,020
Total investments	\$ 328,863,154	\$ 274,522,436

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

	2020	2019
Interest and dividends:		
U.S. Treasury and federal agencies	\$ 187,289	\$ 220,259
Corporate bonds and notes	453,710	417,375
Preferred and common stock	1,705,139	2,080,685
Private equity funds	453,433	368,604
Real estate funds	-	4,051
Cash and cash equivalents	37,296	176,504
Total interest and dividends	2,836,867	3,267,478
Realized gains (losses) on investments:		
U.S. Treasury and federal agencies	749,261	370,301
Corporate bonds and notes	542,542	53,033
Preferred and common stock	13,078,847	5,585,507
Private equity funds	3,169,393	3,168,976
Real estate funds	-	441,416
Hedge funds	1,173,298	(264,519)
Net realized gains on investments	18,713,341	9,354,714
Unrealized gains (losses) on investments:		
U.S. Treasury and federal agencies	(293,566)	27,819
Corporate bonds and notes	1,178,536	1,966,387
Preferred and common stock	4,994,019	26,081,133
Private equity funds	22,274,285	3,060,503
Real estate funds	243,223	151,558
Hedge funds	2,241,130	4,577,634
Net unrealized gains on investments	30,637,627	35,865,034
Investment expenses	(1,003,860)	(1,124,938)
Total investment return	\$ 51,183,975	\$ 47,362,288

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Notes to Financial Statements

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.

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Notes to Financial Statements

The table below sets forth those assets measured at fair value as of December 31, 2020.

Description	Level 1	Level 2	Level 3	Investments Measured at NAV*	Total
U.S. Treasury and federal agencies	\$ -	\$ 9,186,189	\$ -	\$ -	\$ 9,186,189
Corporate bonds and notes:					
Corporate bonds	-	11,064,364	-	-	11,064,364
Asset-backed securities	-	3,687,912	-	-	3,687,912
Commercial mortgage-backed securities	-	2,214,612	-	-	2,214,612
Municipal/provincial bonds	-	2,040,368	-	-	2,040,368
Convertible bonds	-	-	-	11,771,207	11,771,207
Total corporate bonds and notes	-	19,007,256	-	11,771,207	30,778,463
Preferred and common stock:					
Domestic common stock	86,405,522	-	-	-	86,405,522
International common stock	60,601,920	-	-	-	60,601,920
Total preferred and common stock	147,007,442	-	-	-	147,007,442
Other investments:					
Private equity funds	-	-	-	100,127,592	100,127,592
Real estate funds	-	-	-	1,993,561	1,993,561
Hedge funds	-	-	-	39,753,907	39,753,907
Other	-	-	16,000	-	16,000
Total other investments	-	-	16,000	141,875,060	141,891,060
Total	\$ 147,007,442	\$ 28,193,445	\$ 16,000	\$ 153,646,267	\$ 328,863,154

*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.

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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.

For the years ended December 31, 2020 and 2019, 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, 2020 and 2019, AER had outstanding future funding commitments of approximately \$35.9 million and \$59.3 million, respectively, related to agreements reached with private equity and real estate funds. These agreements do not specify when such funding requests

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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, 2020 and 2019, AER had \$11,771,207 and \$14,725,243, 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, 2020 and 2019. 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:

2020 AER Hedge Fund Fair Value Estimates, Terms and Conditions

	Fair Value	Redemption Frequency	Notice Period	Other Conditions*
Alphadyne International Fund	\$ 5,412,347	Monthly	60 days	1 yr soft lock (3%)
Asturias Offshore Fund	1,900,560	Quarterly	60 days	1 yr soft lock (5%)
Autonomy Global Macro Fund	782,796	Monthly	60 days	1 yr soft lock (5%); 10% investor level gate
Broad Bay Capital Management Offshore Fund	4,631,186	Quarterly	60 days	1 yr soft lock (6%); 50% investor level gate
HG Vora Special Opportunities Fund	5,912,356	Quarterly	90 days	1 yr soft lock (3%); 25% investor level gate
Marshall Wace Eureka Fund	5,369,132	Monthly	90 days	
Nut Tree Offshore Fund	5,671,239	Quarterly	75 days	1 yr soft lock (5%); 25% investor level gate
Old Orchard Credit Fund	4,539,723	Quarterly	30 days	1 yr soft lock (3%)
Pentwater Merger Arbitrage Fund	3,442,334	Monthly	92 days	
Varadero Master Fund	2,092,234	Quarterly	90 days	1 yr hard lock; 25% investor level gate

Hedge funds - December 31, 2020 \$ 39,753,907

*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 2020 had passed their 1 year hard lock period.

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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.

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 26% and 38% of investments measured at NAV as of December 31, 2020 and 2019, 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 65% and 47% of investments measured at NAV as of December 31, 2020 and 2019, respectively, and include investments in buyout partnerships, venture capital, special situations, portfolio funds, and marketable securities. The real estate funds represent approximately 1% and 4% of the investments measured at NAV as of December 31, 2020 and 2019, respectively, and includes investments in office buildings, hotels, land, and multifamily housing units. The remaining NAV assets are composed of corporate bonds.

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Investment allocations of the underlying assets for other investments measured at NAV at December 31, 2020 and 2019, are as follows:

<i>December 31,</i>	2020	2019
Private equity:		
Buyout partnerships	41 %	47%
Venture capital	38 %	31%
Special situations	21 %	22%
Real estate:		
Multifamily	- %	1%
Diversified	100 %	99%
Hedge fund:		
Common equities and fixed income	84 %	85%
Derivatives	16 %	15%

5. Office Equipment, Computer Hardware and Software

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

<i>December 31,</i>	2020	2019
Software	\$ 580,882	\$ 575,062
Equipment	1,588,499	1,690,060
Furniture and fixtures	62,951	60,825
Business Enterprise System	8,538,849	7,930,849
	10,771,181	10,256,796
Less: accumulated depreciation and amortization	(8,829,994)	(6,910,463)
Total	\$ 1,941,187	\$ 3,346,333

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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, 2020 and 2019, were as follows:

<i>December 31,</i>	2020	2019
Purpose or time-restricted		
Annual Campaign Contributions Pledged	\$ 1,349,999	\$ 1,431,413
Contributions restricted for COVID-19	4,389,184	-
MAJ Hugh Boyd Casey Memorial Award	28,958	27,316
Pentagon Scholarship Fund	8,619,199	8,901,476
	14,387,340	10,360,205
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	\$ 16,188,132	\$ 12,160,997

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During the years ended December 31, 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donor or by the passage of time, as follows:

<i>December 31:</i>	2020	2019
Purpose restrictions:		
Scholarships with donor restrictions	\$ 312,937	\$ 389,094
COVID-19 time restriction	2,360,816	-
Widows	4,514	2,569
MAJ Hugh Boyd Casey Memorial Award	-	500
Time restrictions:		
Annual fund campaign	1,431,413	1,658,054
Total	\$ 4,109,680	\$ 2,050,217

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 2020 and 2019. AER's contributions to the NAF retirement plan charged to expense were \$166,365 and \$179,878 during 2020 and 2019, respectively, and are

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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 \$177,880 and \$179,435 during 2020 and 2019, 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, 2020 and 2019, were \$600,047 and \$602,525, 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, 2020 and 2019. On October 28, 2020, 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 27, 2021, in the amount of \$25,000,000. AER did use and repay \$1,000,000 of its line of credit in 2020 and incurred \$3,091 of interest expense for the year ended December 31, 2020. AER did not use its \$25,000,000 line of credit in 2019.

11. Risks and Uncertainties

On January 30, 2020, the Director-General of the World Health Organization (WHO) declared the novel coronavirus outbreak a public health emergency of international concern (PHEIC), WHO's highest level of alarm. On March 11, 2020, the WHO declared the novel coronavirus a global pandemic.

At this stage, the impact on AER's financial condition, operations and liquidity has not been significant based on AER's experience to date. AER's line of credit provided liquidity while AER evaluated the impact of COVID-19 and allowed AER to avoid liquidation of investment portfolio assets during a volatile market. AER's \$1,000,000 line of credit drawdown and repayment were made within the fiscal year. The global pandemic of COVID-19 continues to rapidly evolve, and AER will continue to monitor the COVID-19 situation closely. Although AER cannot estimate the length

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or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse impact on AER's results of future operations, financial position, and liquidity in fiscal year 2021.

On March 27, 2020, the President of the United States 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 social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property. AER has not applied for any economic assistance through the Paycheck Protection Program, established by the CARES Act. AER's management has evaluated the other relief provisions of the CARES Act. However, no other funding has been obtained under the CARES Act.

On December 27, 2020, the Appropriations Act, 2021, was signed into law, which includes \$900 billion in stimulus relief as a result of the COVID-19 pandemic. AER has not applied for any economic assistance through the Act.

12. Subsequent Events

On March 11, 2021, the American Rescue Plan Act of 2021 was also signed into law which includes \$1.9 trillion in stimulus relief as a result of the COVID-19 pandemic. Currently, management does not expect the American Rescue Plan to have a material impact on the statements of financial position, changes in net assets, or liquidity of AER.

AER has evaluated events and transactions for potential recognition or disclosure through May 13, 2021, 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.