

ASSOCIATION OF THE UNITED STATES ARMY

FINANCIAL STATEMENTS

SIX MONTH PERIOD ENDED JUNE 30, 2018

Draft 11.27.18

**ASSOCIATION OF THE UNITED STATES ARMY
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Draft 11.27.18



INDEPENDENT AUDITORS' REPORT

Council of Trustees
Association of the United States Army
Arlington, Virginia

We have audited the accompanying financial statements of the Association of the United States Army (the Association), which comprise the statement of financial position as of June 30, 2018, the related statements of activities, functional expenses, and cash flows for the six month period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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.

Council of Trustees
Association of the United States Army

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2018, and the changes in its net assets and its cash flows for the six month period then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Arlington, Virginia
REPORT DATE

Draft 11.27.18

**ASSOCIATION OF THE UNITED STATES ARMY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 12,282,911
Cash Held in Chapter Accounts	3,559,001
Property Held for Sale	471,900
Accounts Receivable	695,589
Other Receivables	346,574
Prepaid Meeting Expenses	4,161,346
Other Current Assets	156,410
Total Current Assets	21,673,731

NONCURRENT ASSETS

Investments	49,073,788
Property and Equipment, Net	14,232,902
Rent Receivable	391,996
Prepaid Lease Commissions, Net	125,891
Other Receivable	600,000
Total Noncurrent Assets	64,424,577

Total Assets	\$ 86,098,308
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable and Accrued Expenses	\$ 4,127,382
Advance Payments on Meetings and Other Activities	14,117,253
Advance Payments on Memberships and Subscriptions	1,750,567
Funds Held for Chapters	3,559,001
Total Current Liabilities	23,554,203

NONCURRENT LIABILITIES

Tenant Deposits	101,371
Accrued Pension Cost	212,515
Advance Payments on Memberships and Subscriptions	250,358
Total Noncurrent Liabilities	564,244

Total Liabilities	24,118,447
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NET ASSETS

Unrestricted:	
Board Designated – Institute of Land Warfare	17,575,288
Other Unrestricted	43,934,410
Total Unrestricted Net Assets	61,509,698
Temporarily Restricted	470,163
Total Net Assets	61,979,861

Total Liabilities and Net Assets	\$ 86,098,308
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See accompanying Notes to Financial Statements.

**ASSOCIATION OF THE UNITED STATES ARMY
STATEMENT OF ACTIVITIES
SIX MONTH PERIOD ENDED JUNE 30, 2018**

	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE			
Meetings	\$ 8,270,845	\$ -	\$ 8,270,845
Membership Dues	2,233,125	-	2,233,125
Rental Income	796,862	-	796,862
Advertising	265,170	-	265,170
Contributions	71,569	187,814	259,383
Other Income	169,806	-	169,806
Net Assets Released from Program Restrictions	125,918	(125,918)	-
Total Operating Revenue	<u>11,933,295</u>	<u>61,896</u>	<u>11,995,191</u>
OPERATING EXPENSES			
Program Services:			
Meetings	6,819,119	-	6,819,119
Membership	1,486,380	-	1,486,380
Institute of Land Warfare	1,356,291	-	1,356,291
Publications	1,099,013	-	1,099,013
Noncommission Officers	414,565	-	414,565
Regional Activities	343,242	-	343,242
Government Affairs	222,573	-	222,573
Advertising	144,547	-	144,547
Public Affairs	13,062	-	13,062
Total Program Services	<u>11,898,792</u>	<u>-</u>	<u>11,898,792</u>
Supporting Services:			
Management and General	2,083,498	-	2,083,498
Building Rental Operations	590,496	-	590,496
Fundraising	37,992	-	37,992
Total Supporting Services	<u>2,711,986</u>	<u>-</u>	<u>2,711,986</u>
Total Operating Expenses	<u>14,610,778</u>	<u>-</u>	<u>14,610,778</u>
CHANGE IN NET ASSETS FROM OPERATIONS	(2,677,483)	61,896	(2,615,587)
OTHER REVENUE (EXPENSE)			
Net Investment Income	918,210	-	918,210
Change in Pension Obligation	1,031,678	-	1,031,678
Strategic Industry Donation	(2,500,000)	-	(2,500,000)
Total Other Revenue (Expense)	<u>(550,112)</u>	<u>-</u>	<u>(550,112)</u>
CHANGE IN NET ASSETS	(3,227,595)	61,896	(3,165,699)
Net Assets – Beginning of Year	<u>64,737,293</u>	<u>408,267</u>	<u>65,145,560</u>
NET ASSETS – END OF YEAR	<u>\$ 61,509,698</u>	<u>\$ 470,163</u>	<u>\$ 61,979,861</u>

See accompanying Notes to Financial Statements.

**ASSOCIATION OF THE UNITED STATES ARMY
STATEMENT OF FUNCTIONAL EXPENSES
SIX MONTH PERIOD ENDED JUNE 30, 2018**

	Program Services							
	Meetings	Membership	Institute of Land Warfare	Publications	Noncommission Officers	Regional Activities	Government Affairs	Other
Discount and Commissions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Communications	9,724	2,116	5,433	2,873	1,928	3,786	394	-
Equipment	-	-	-	-	-	-	-	-
Depreciation and Amortization	122,023	97,832	102,915	78,801	31,521	31,521	15,760	-
Insurance	18,157	-	-	5,633	-	23,452	-	-
Local Organization Support	-	177,420	-	-	-	74,000	-	-
Mailing	1,007	37,810	10,805	107,804	3,679	9,987	-	-
Marketing	203,792	79,422	2,492	-	-	-	-	-
Meeting and Events Expenses	4,507,966	-	12,874	-	-	4,802	-	-
Contribution and Sponsorship	-	-	1,210	-	9,000	-	-	-
Award Material	-	-	-	-	-	-	-	-
Miscellaneous	140,297	26,523	9,515	7,025	436	8,233	12,142	-
Council and Committee	-	-	-	-	-	-	-	-
Personnel	942,238	834,872	811,402	537,400	256,889	22,301	160,508	-
Professional Services	7,649	-	59,494	-	-	-	-	-
Program	-	1,289	-	-	11,376	14,771	150	-
Publications	4,748	2,802	25,096	151,608	-	-	-	-
Supplies	29,438	648	-	-	-	-	-	-
Taxes	1,355	-	-	-	-	-	-	-
Travel and Entertainment	448,301	16,722	100,106	16,536	34,331	73,571	1,772	-
Wilson Boulevard Building	-	-	-	-	-	-	-	-
Occupancy	162,630	21,113	28,532	49,217	8,559	19,972	3,424	-
Computer Services	220,066	176,436	185,603	142,116	56,846	56,846	28,423	-
Cost of Sales	(272)	11,375	814	-	-	-	-	-
Total	6,819,119	1,486,380	1,356,291	1,099,013	414,565	343,242	222,573	-
Add: Strategic Industry Donation	-	-	-	-	-	-	-	2,500,000
	<u>\$ 6,819,119</u>	<u>\$ 1,486,380</u>	<u>\$ 1,356,291</u>	<u>\$ 1,099,013</u>	<u>\$ 414,565</u>	<u>\$ 343,242</u>	<u>\$ 222,573</u>	<u>\$ 2,500,000</u>

See accompanying Notes to Financial Statements.

**ASSOCIATION OF THE UNITED STATES ARMY
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
SIX MONTH PERIOD ENDED JUNE 30, 2018**

	Program Services (Continued)			Supporting Services				Total
	Advertising	Public Affairs	Total Program Services	Management and General	Building Rental Operations	Fund-Raising	Total Supporting Services	
Discount and Commissions	\$ 58,643	\$ -	\$ 58,643	\$ -	\$ 26,965	\$ -	\$ 26,965	\$ 85,608
Communications	-	850	27,104	34,988	900	-	35,888	62,992
Equipment	-	-	-	18,535	-	-	18,535	18,535
Depreciation and Amortization	7,880	5,910	494,163	(296,774)	395,715	-	98,941	593,104
Insurance	360	-	47,602	42,725	8,471	-	51,196	98,798
Local Organization Support	-	-	251,420	-	-	-	-	251,420
Mailing	4,182	47	175,321	1,824	2	37	1,863	177,184
Marketing	894	-	286,600	-	-	5,311	5,311	291,911
Meeting and Events Expenses	-	-	4,525,642	3,473	-	-	3,473	4,529,115
Contribution and Sponsorship	-	-	10,210	-	-	-	-	10,210
Award Material	-	964	964	-	-	-	-	964
Miscellaneous	215	(8,237)	196,149	87,107	402	32,644	120,153	316,302
Council and Committee	-	-	-	9,301	-	-	9,301	9,301
Personnel	34,254	-	3,599,864	1,444,242	160,321	-	1,604,563	5,204,427
Professional Services	-	-	67,143	273,808	-	-	273,808	340,951
Program	-	-	27,586	-	-	-	-	27,586
Publications	18,350	-	202,604	-	-	-	-	202,604
Supplies	-	-	30,086	-	-	-	-	30,086
Taxes	3,845	-	5,200	69,484	150,005	-	219,489	224,689
Travel and Entertainment	-	2,869	694,208	53,433	100	-	53,533	747,741
Wilson Boulevard Building	-	-	-	26,785	295,880	-	322,665	322,665
Occupancy	1,712	-	295,159	195,741	(490,900)	-	(295,159)	-
Computer Services	14,212	10,659	891,207	118,826	42,635	-	161,461	1,052,668
Cost of Sales	-	-	11,917	-	-	-	-	11,917
Total	144,547	13,062	11,898,792	2,083,498	590,496	37,992	2,711,986	14,610,778
Add: Strategic Industry Donation	-	-	2,500,000	-	-	-	-	2,500,000
	<u>\$ 144,547</u>	<u>\$ 13,062</u>	<u>\$ 14,398,792</u>	<u>\$ 2,083,498</u>	<u>\$ 590,496</u>	<u>\$ 37,992</u>	<u>\$ 2,711,986</u>	<u>\$ 17,110,778</u>

See accompanying Notes to Financial Statements.

**ASSOCIATION OF THE UNITED STATES ARMY
STATEMENT OF CASH FLOWS
SIX MONTH PERIOD ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (3,165,699)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:	
Depreciation and Amortization	789,523
Net Realized and Unrealized Gains on Investments	(620,726)
Unrealized Loss on Donated Property	35,780
Changes in Operating Assets and Liabilities:	
Accounts Receivable	(443,363)
Other Receivables	(7,163)
Prepaid Meeting Expenses	(1,042,441)
Other Current Assets	128,346
Rent Receivable	88,012
Prepaid Lease Commissions	26,965
Accounts Payable and Accrued Expenses	(289,480)
Advance Payments on Meetings and Other Activities	7,247,905
Advance Payments on Memberships and Subscriptions	(124,635)
Grant Payable to AHF	(17,131,739)
Accrued Pension Costs	(994,725)
Tenant Deposits	(5,673)
Net Cash Used by Operating Activities	(15,509,113)

CASH FLOWS FROM INVESTING ACTIVITIES

Net Increase in Money Market Funds	(2,258,887)
Purchases of Investments	(11,235,501)
Proceeds from Sales of Investments	36,037,095
Purchases of Property and Equipment	(258,562)
Net Cash Provided by Investing Activities	22,284,145

NET INCREASE IN CASH AND CASH EQUIVALENTS

6,775,032

Cash and Cash Equivalents – Beginning of Year

5,507,879

CASH AND CASH EQUIVALENTS – END OF YEAR

\$ 12,282,911

**ASSOCIATION OF THE UNITED STATES ARMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Association of the United States Army (AUSA or the Association) was incorporated in 1950 in the District of Columbia as a private nonprofit corporation. The Association's objective is to be wholly educational, literary, scientific, fostering esprit de corps, to disseminate professional knowledge and to promote the efficiency of the Army components of the Armed Forces of the United States of America. The principal office of the Association is located in Arlington, Virginia.

During January 2018, the Association's Council of Trustees approved a change in the Association's fiscal year-end from December 31 to June 30. This change was made to better align operating cycles to budgeting cycles and takes effect with the six month period ended June 30, 2018.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expensed when the obligation is incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results may differ from estimates under different assumptions or conditions.

Revenue Recognition

Registration and exhibit fees for meetings and symposia are recognized as revenue in the period the related meeting or symposia is held. Cash payments received in advance of when the meeting or symposia occurs is reflected as advance payments on meetings and other activities in the accompanying statement of financial position.

Membership dues for Community and National Partners are recognized as revenue on a straight-line basis over the applicable membership period. Advance payments on memberships represent unearned dues that are expected to be earned within the next one to three years. Life and individual membership dues are considered contributions and, accordingly, are recorded as revenue when received.

Certain tenant leases contain rental abatement provisions and escalation clauses. Rental income is recognized on a straight-line basis over the lease term. As a result, rental income is recognized in excess of the cash payments received in the initial years of the lease, resulting in the recognition of a rent receivable in the accompanying statement of financial position. The rent receivable is reduced as cash payments received exceed rental income recognized.

Advertising revenue is recorded as revenue when the advertisement is published.

**ASSOCIATION OF THE UNITED STATES ARMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Revenues from contributions are considered to be available for unrestricted use and are recognized as revenue when an unconditional pledge is received or when cash is received if no pledge exists. The Association reports contributions as restricted support if they are received with donor stipulations, such as time restrictions or restrictions as to the nature of the program that limit the use of the contributions. When a donor restriction expires (i.e., when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions.

All other revenues are recognized when earned.

Cash Equivalents

Cash equivalents include all highly liquid investments purchased with original maturities of three months or less, except for cash and cash equivalents held as a component of the investment portfolio.

Investments

Investments are recorded at fair value. Gains and losses on investments, including changes in market value, are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation. Although particular holdings in the investment portfolio may be considered more liquid than others, the Association's intent is to hold all investments long-term and thus the Association classifies the entire investment portfolio balance as noncurrent.

Fair Value Measurements

The Association accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. The Association has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets whose values are based on unadjusted quoted prices for identical assets in an active market that the Association has the ability to access.

Level 2 – Financial assets whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset. Level 2 inputs include, among others, quoted prices for similar assets in active market or nonactive market.

ASSOCIATION OF THE UNITED STATES ARMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 3 – Financial assets whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset.

Accounts Receivable

Accounts receivable represent amounts due for exhibit fees and sponsorships for meetings and symposia, and from advertising in the Association's publications. The Association provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. The Association believes all of its accounts receivable are collectible, and accordingly no allowance for doubtful accounts has been recognized in the accompanying statement of financial position as of June 30, 2018.

Property and Equipment

The Association's policy is to capitalize all property and equipment purchases in excess of \$5,000. Property and equipment is stated at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment is retired, or otherwise disposed of, the cost and accumulated depreciation is removed from the accounts and any resulting gain or loss is included in the statements of activities and change in net assets for the respective period. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of 3 to 40 years. Amortization of building improvements is computed using the straight-line method over the useful life of the building. Land is not depreciated or amortized.

Prepaid Lease Commissions

Commissions associated with the building leases are being amortized on a straight-line basis over the terms of the related leases. Accumulated amortization related to prepaid lease commissions totaled \$600,171 at June 30, 2018. During the six month period ended June 30, 2018, the Association recorded amortization expense related to prepaid lease commissions of \$26,965.

Defined Benefit Plan

The Association fully recognizes the overfunded or underfunded positions (the difference between the fair value of plan assets and the benefit obligation) of the defined benefit pension plan in the statement of financial position. This guidance also requires employers to recognize the actuarial gains and losses and the prior service costs and credits that arise during the period but pursuant to past standards were not recognized as components of current net periodic benefit cost and any remaining transition asset or obligation.

ASSOCIATION OF THE UNITED STATES ARMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

The Association's resources are classified for accounting and reporting purposes into net asset groups based on the existence or absence of donor or time imposed restrictions. The net asset groups are as follows:

Unrestricted – represents unrestricted revenue, contributions, and expenses without donor-imposed restrictions. These funds are available for the overall operation of the Association, and include both internally designated and undesignated resources. The Council of Trustees of the Association has designated a portion of the unrestricted fund balance for the Institute of Land Warfare.

Temporarily Restricted – represents resources received by the Association with specific donor-imposed purpose and/or time restrictions.

Income Taxes

The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), except for income from activities not related to its tax-exempt purpose, which primarily includes the Association's advertising activities. No provision for income taxes was recorded during the six month period ended June 30, 2018, as the Association had no significant unrelated business income. The Association is not a private foundation pursuant to section 509(a)(3) of the IRC.

The Association's income tax returns are subject to review and examination by federal and state authorities. Management has evaluated the Association's tax positions and has concluded that the Association has taken no material uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Valuation of Long-Lived Assets

The Association accounts for the valuation of long-lived assets under authoritative guidance, which requires that long-lived assets be reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. No indicators of impairment were identified for the six month period ended June 30, 2018.

Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and activities benefited.

**ASSOCIATION OF THE UNITED STATES ARMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measure of Operations

The Association considers net investment income, change in pension obligation, and strategic industry donation to be other items not included in operations. Strategic industry donation represents significant contributions made to promote the mission of the Association such as the construction of the National Museum of the United States Army.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through REPORT DATE, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATION OF CREDIT RISK

The Association is subject to credit risk concentrations principally from cash and cash equivalents, investments, and accounts receivable. The Association believes the risk of loss associated with cash and cash equivalents is very low since these assets are maintained in high-quality financial institutions. However, at times during the years, the Association had cash and cash equivalents on deposit with a financial institution that exceeded federally insured limits. The Association has never experienced any losses related to these balances.

The Association invests its excess cash and cash equivalents, and maintains its investments with a high-quality financial institution. Management regularly monitors the composition and maturities of its investments. Investments are subject to market fluctuations that may materially affect the investment balance.

The Association's accounts receivable balance consists primarily of amounts due for advertising and meeting activities. The Association's management reviews the accounts receivable balances regularly to determine the adequacy of its allowance for doubtful accounts.

NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following at June 30, 2018:

	<u>Market Value</u>	<u>Cost</u>
Money Market Funds	\$ 4,558,842	\$ 4,558,842
Common Stock	18,323,409	11,283,528
Mutual Funds/ETF	17,051,545	15,134,148
Bonds	8,145,140	8,244,287
Treasury Bills	994,852	992,670
Total	<u>\$ 49,073,788</u>	<u>\$ 40,213,475</u>

**ASSOCIATION OF THE UNITED STATES ARMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Investment income consists of the following for the six month period ended June 30, 2018:

Net Realized Gain	\$ 394,298
Unrealized Gain	226,428
Interest and Dividends	471,945
Less: Investment Fees	(174,461)
Total	<u>\$ 918,210</u>

Fair Value

The following table presents the Association's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stock:				
Financial Services	\$ 4,673,760	\$ -	\$ -	\$ 4,673,760
Information Technology	6,481,310	-	-	6,481,310
Consumer Discretionary	2,593,984	-	-	2,593,984
Healthcare	1,670,068	-	-	1,670,068
Industrials	1,192,443	-	-	1,192,443
Energy	989,113	-	-	989,113
Consumer Staples	722,731	-	-	722,731
Subtotal	<u>18,323,409</u>	-	-	<u>18,323,409</u>
Mutual Funds:				
Equity	7,995,427	-	-	7,995,427
Fixed Income	4,405,495	-	-	4,405,495
Exchanged Traded Funds:				
Equity	4,057,013	-	-	4,057,013
Fixed Income	593,610	-	-	593,610
Subtotal	<u>17,051,545</u>	-	-	<u>17,051,545</u>
Bonds:				
Government and Agency	-	3,229,122	-	3,229,122
Corporate	-	3,565,801	-	3,565,801
Taxable Municipal	-	1,350,217	-	1,350,217
Subtotal	<u>-</u>	<u>8,145,140</u>	<u>-</u>	<u>8,145,140</u>
Total	<u>\$ 35,374,954</u>	<u>\$ 8,145,140</u>	<u>\$ -</u>	<u>\$ 43,520,094</u>

The above table excludes cash and cash equivalents of \$5,553,694 held in investment accounts at June 30, 2018. These amounts are reported at carrying value, which approximates fair value.

**ASSOCIATION OF THE UNITED STATES ARMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 PROPERTY HELD FOR SALE

In August 2017, the Association received a donation of real property consisting of three buildings. Upon receipt, the Association listed all three buildings for sale and account for the assets as held for sale. One building was sold during the year ended December 31, 2017, and the remaining two buildings were held for sale as of June 30, 2018. During the six month period ended June 30, 2018, the Association recorded a loss of \$35,780 to adjust the buildings to their estimated fair value of \$471,900 at June 30, 2018. The Association expects to receive an offer to purchase the remaining two buildings during fiscal year 2019, and accordingly these assets continue to be accounted for and reported as assets held for sale.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2018:

Land	\$ 455,285
Building and Improvements	18,869,527
Computer Equipment and Software	4,852,322
Office Furniture and Fixtures	3,624,138
Vehicles	18,765
Subtotal	<u>27,820,037</u>
Less: Accumulated Depreciation and Amortization	<u>(13,587,135)</u>
Total	<u><u>\$ 14,232,902</u></u>

NOTE 6 RELATED PARTY TRANSACTIONS

Army Historical Foundation

On June 5, 2015, and amended on May 31, 2016, the Association entered into an affiliation agreement with the Army Historical Foundation (AHF or the Foundation). Under the terms of the agreement, the Association will designate two-thirds of the board of directors of the Foundation. The agreement also describes responsibilities of each organization related to operations needed to construct the National Museum of the United States Army (the museum).

Under the terms of the affiliation agreement, AUSA has provided a conditional promise to contribute \$34 million to AHF related to the construction of the museum. As of December 31, 2016, this promise was conditional upon occurrence of future events and, accordingly, only amounts contributed were recorded. During 2017, the conditions were met and the remaining amount of the pledge was recorded. In February 2018, AUSA fulfilled its remaining commitment balance of \$17,131,739 and dissolved the affiliation agreement with AHF.

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NOTE 6 RELATED PARTY TRANSACTIONS (CONTINUED)

During the six month period ended June 30, 2018, AUSA made a contribution of \$2.5 million to AHF and also committed to a conditional promise to contribute an additional \$6 million to AHF for the construction of the museum. The Association recognized contribution expense in the amount of \$2.5 million to AHF during the six month period ended June 30, 2018, which is included in other revenue (expense) in the accompanying statement of activities. In August 2018, the conditions were met and AUSA contributed \$6 million to AHF.

The Association leases office space to AHF under the terms of a noncancelable operating lease that expires on August 31, 2019. Total rental income recorded under the lease with AHF was \$114,753 for the six month period ended June 30, 2018.

Chapters

The Association is affiliated with approximately 120 chapters that support AUSA members worldwide. The chapters are not separate legal entities from the Association, as they derive their legal existence and tax-exempt status from the Association. While the Association has legal control of the chapter bank accounts, this is a matter of legal convenience and the Association does not participate in the day-to-day operations or decision-making process at the chapters or regional level. Accordingly, the Association does not have operational control and therefore the accompanying financial statements exclude the revenues and expenses of the chapters.

Chapter financial information is obtained annually for regulatory and financial reporting purposes. As of June 30, 2018, amounts held by the Association on behalf of the AUSA chapters totaled \$3,559,001, and is recorded on the accompanying statement of financial position along with a corresponding liability reported as funds held for chapters.

The Association has a revenue sharing practice with its affiliated chapters. Chapter share dues are recognized as expense when the corresponding member dues are recognized as revenue by the Association. During the six month period ended June 30, 2018, the Association recorded chapter share dues expense of \$177,420.

Other Receivable

Under the terms of an employment agreement with a former officer of the Association, the Association agreed to fund for a period of 10 years the \$60,000 annual premiums of a survivorship life insurance policy on the lives of the former officer and his spouse. The insurance policy is in the name of the former officer, and is administered by a trustee. Upon the deaths of the former officer and his spouse, the trustee shall pay to the Association, from the policy's death benefit, an amount equal to all premiums paid by the Association for the policy. As of December 31, 2009, the Association has paid premiums on this policy totaling \$600,000 and is not obligated to pay any further premiums under this arrangement. A receivable for this amount is included in the accompanying statement of financial position at June 30, 2018.

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NOTE 6 RELATED PARTY TRANSACTIONS (CONTINUED)

During 2016, the Association amended the employment agreement to include a provision that the former officer's obligation for repayment under this agreement will be forgiven ratably over a 12-year period beginning on July 1, 2018, and continuing through July 1, 2029. If the former officer dies prior to July 1, 2029, any unforgiven portion of this receivable shall be reimbursed to the Association from the life insurance proceeds that are otherwise payable to the former officer's designated beneficiary.

NOTE 7 RETIREMENT PLANS

Defined Contribution Plan

The Association maintains a defined contribution 401(k) Plan (the 401(k) Plan) for all employees. Under the terms of the 401(k) Plan, employees are eligible to participate immediately. The 401(k) Plan requires the Association to match 100% of the first 5% of each participant's compensation. In addition, the Association will contribute 3% of each participant's compensation. Participants are fully and immediately vested in both participant and Association contributions, plus earnings and losses thereon. The Association recorded contributions to the 401(k) Plan of \$542,422 for the six month period ended June 30, 2018.

Defined Benefit Plan

The Association sponsors a defined benefit pension plan (the Plan) that covers certain employees. The benefits are based on years of service and the highest average annual rate of compensation for any three consecutive years during the 10 years prior to retirement or average earnings received in the last three full calendar years before early retirement or termination of employment. Contributions are intended to provide benefits attributed to employees' services to date, as well as for those services expected to be performed in the future.

In 2004, the Plan was frozen to new entrants, and in 2007, the Plan was amended to freeze the accumulation of future service and salary increases. The Plan continues for eligible participants but no future benefits accrue. All employees became eligible to participate in the Association's defined contribution 401(k) plan, effective May 1, 2007.

Reconciliations of the projected benefit obligation and the value of Plan assets are as follows as of and for the six month period ended June 30, 2018:

Projected Benefit Obligation:	
Balance at Beginning of Year	\$ 13,679,612
Service Cost, Net of Administrative Expenses	207
Interest Cost	227,704
Actuarial Loss	(956,079)
Benefits Paid to Participants	(370,242)
Balance at End of Year	<u>\$ 12,581,202</u>
Plan Assets:	
Fair Value at Beginning of Year	\$ 12,472,372
Actual Investment Returns	292,213
Benefits Paid to Participants	(370,242)
Trustees Fees and Expenses	(25,656)
Fair Value at End of Year	<u>\$ 12,368,687</u>

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NOTE 7 RETIREMENT PLANS (CONTINUED)

Defined Benefit Plan (Continued)

The obligations and funded status of the Plan are as follows at June 30, 2018:

Fair Value of Plan Assets	\$ 12,368,687
Projected Benefit Obligation	<u>(12,581,202)</u>
Deficit of Fair Value over Projected Benefit Obligation	<u>\$ (212,515)</u>

As of June 30, 2018, the Plan recognized accrued pension costs of \$212,515 in the accompanying statement of financial position. Actuarial gains and losses are included in the change in accrued pension costs and is reported as a separate component of nonoperating revenue and expense in the accompanying statement of activities.

Pension expense includes the following components for the six month period ended June 30, 2018:

Service Cost of the Current Period	\$ 25,863
Interest Cost on the Projected Benefit Obligation	227,704
Expected Return on Assets Held in the Plan	(292,213)
Amortization of Prior Service Cost	144,079
Transition Asset and Net Gain	<u>(68,480)</u>
Pension Benefit	<u>\$ 36,953</u>

Weighted average assumptions used in calculating benefit obligations are as follows:

Discount Rate on the Benefit Obligation	4.07%
Rate of Expected Return on Plan Assets	6.00%

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2019	\$ 810,346
2020	818,996
2021	823,030
2022	818,654
2023	812,369
2024-2028	<u>4,033,831</u>
Total	<u>\$ 8,117,226</u>

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NOTE 7 RETIREMENT PLANS (CONTINUED)

Defined Benefit Plan (Continued)

The following sets forth the fair value measurements of the Plan's assets at June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 69,804	\$ -	\$ -	\$ 69,804
Pooled, Common and Collective Funds	-	3,004,168	-	3,004,168
Mutual Funds:				
Mutual Funds Equity	6,196,580	-	-	6,196,580
Mutual Funds Corporate Bonds	3,098,135	-	-	3,098,135
Total	<u>\$ 9,364,519</u>	<u>\$ 3,004,168</u>	<u>\$ -</u>	<u>\$ 12,368,687</u>

The investment policy and strategy for Plan assets includes a target allocation of 60% in equity funds and 40% in fixed income funds. The overall expected long-term rate of return on assets is 6.0% and is based on the expected return of each of the above categories, weighted based on the target allocation for each class.

NOTE 8 BUILDING OPERATING LEASES

The Association leases office space in its building under operating leases expiring in various years through June 2023. The lease agreements provide for annual escalation increases of the base rent varying from 2.75% to 4.00%.

As of June 30, 2018, minimum future rentals to be received on noncancelable leases are summarized as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2019	\$ 1,416,295
2020	1,132,903
2021	838,398
2022	871,934
2023	906,811
Total	<u>\$ 5,166,341</u>

The Association is recognizing rental income from its tenant leases on a straight-line basis over the respective lease periods. As a result, the Association has recorded rent receivable as of June 30, 2018 of \$391,996, reflecting the cumulative difference between the rental income recognized and cash received under the terms of the leases.

NOTE 9 HOTEL COMMITMENTS

The Association has entered into several agreements with hotels to reserve room and facility space for future meetings scheduled to be held through 2024. In the event of cancellation, the Association may be liable for certain amounts, depending on when cancellation occurs. As of June 30, 2018, the maximum contingency for liquidated damages is approximately \$6,347,000.