Audit Committee
Association of the United States Army
Arlington, Virginia

We have audited the financial statements of the Association of the United States Army (the Association) as of and for the six month period ended June 30, 2018, and have issued our report thereon dated REPORT DATE. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

## Significant audit findings

### *Qualitative aspects of accounting practices*

<u>Accounting policies</u>

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Association of the United States Army are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the six month period ended June 30, 2018.

We noted no transactions entered into by the entity during the six month period ended June 30, 2018 for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

<u>Accounting estimates</u>

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of depreciation is based on the estimated useful lives of the buildings, leasehold improvements, equipment, and furniture. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the pension liability is based on the assumptions used by the Association of the United States Army, Inc. Retirement Income Plan's (the Plan) actuary. We evaluated the key factors and assumptions used to develop the pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the functional allocation of expenses shared between programs, management and general, and fundraising is based on a reasonable and consistent basis using factors such as direct payroll allocation, square footage, and full time equivalents within each department. We evaluated the key factors and assumptions used to develop the allocation in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the hotel commitments is based on fully executed agreements and their attrition clauses. We evaluated the key factors and assumptions used to develop the hotel commitments in determining that they are reasonable in relation to the financial statements taken as a whole.

*Financial statement disclosures*

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

***Difficulties encountered in performing the audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

***Corrected misstatements***

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

***Disagreements with management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Management representations***

We have requested certain representations from management that are included in the management representation letter dated REPORT DATE.

***Management consultations with other independent accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Significant issues discussed with management prior to engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

***Significant findings or issues that were discussed, or the subject of correspondence, with management***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year. The significant findings or issues arising from the audit that were discussed, or the subject of correspondence, with management are limited to the items contained herein.

**Other information in documents containing audited financial statements**

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

**Upcoming accounting pronouncements**

The following accounting standards updates have been issued by the Financial Accounting Standards Board (FASB) and will require varying levels of time and resources to assess the impact and prepare for implementation. The new accounting standards are effective for the Association as follows:

- *Presentation of Financial Statements of Not-for-Profit Entities* – In August 2016, the FASB amended guidance to modify the current reporting model for nonprofit organizations and enhance their required disclosures. The major changes applicable to the Association include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions," (b) requiring that all nonprofits present an analysis of expenses by function and nature and disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) presenting investment return net of external and direct expenses, and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Association's financial statements for the year ending June 30, 2019. The provisions of the standard must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption.

- *Revenue from Contracts with Customers* – In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the Association's financial statements for the year ending June 30, 2020.

- *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* – In June 2018, the FASB issued amended guidance to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The guidance provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The guidance should be applied on a modified prospective basis, unless an entity elects a retrospective basis. The standard will be effective for the Association's financial statements for the year ending June 30, 2020.

- *Leases* – In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The accounting for lessors will remain relatively unchanged. The guidance changes the accounting for sale and leaseback transactions to conform to the new revenue recognition standard. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for the Association's financial statements for the year ending June 30, 2021. Early adoption is permitted.

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This communication is intended solely for the information and use of the audit committee and management of the Association of the United States Army, and is not intended to be, and should not be, used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Arlington, Virginia
REPORT DATE