

Consolidated Financial Statements and Report of  
Independent Certified Public Accountants

**United Service Organizations, Inc.**

December 31, 2017

*(with summarized comparative information for December 31, 2016)*

# United Service Organizations, Inc.

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Board of Governors  
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## **Report On the Financial Statements**

We have audited the accompanying consolidated financial statements of United Service Organizations, Inc. (USO), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

## **Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor’s Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Service Organizations, Inc. as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of functional expenses for the year ended December 31, 2017 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### *Report On 2016 Summarized Comparative Information*

We have previously audited the USO's 2016 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 5, 2017. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Other Reporting Required By Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 24, 2018 on our consideration of USO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering USO's internal control over financial reporting and compliance.



Baltimore, Maryland  
April 24, 2018

# United Service Organizations, Inc.

## Consolidated Statements of Financial Position

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 24,904,602	\$ 28,292,556
Contributions receivable, net	18,330,466	15,164,633
Grants receivable	6,143,848	7,120,795
Other receivables, net	536,107	500,568
Prepaid expenses and other assets	2,604,506	2,084,216
Inventory	3,498,909	3,178,561
Investments	131,565,286	112,496,402
Fixed assets, net	11,962,732	5,668,650
<b>Total Assets</b>	<b>\$ 199,546,456</b>	<b>\$ 174,506,381</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 13,787,968	\$ 12,918,568
Deferred rent	3,317,290	67,553
<b>Total Liabilities</b>	<b>17,105,258</b>	<b>12,986,121</b>
<b>Net Assets</b>		
Unrestricted	115,298,291	98,329,022
Temporarily restricted	40,894,984	36,943,315
Permanently restricted	26,247,923	26,247,923
<b>Total Net Assets</b>	<b>182,441,198</b>	<b>161,520,260</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 199,546,456</b>	<b>\$ 174,506,381</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**United Service Organizations, Inc.**

Consolidated Statement of Activities and Changes in Net Assets

*Year ended December 31, 2017 (with summarized comparative information for December 31, 2016)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
<b>Revenue and Support</b>					
Contributions:					
Corporate, foundation and individual giving	\$ 22,689,703	\$ 11,405,340	\$ —	\$ 34,095,043	\$ 35,999,411
Direct response	69,230,113	55,133	—	69,285,246	70,344,035
United way and CFC	901,826	—	—	901,826	1,200,924
Contributed materials, facilities and services	133,812,090	1,051,165	—	134,863,255	76,423,513
Grants	19,023,053	—	—	19,023,053	21,996,694
Excess of assets acquired over liabilities assumed in the donation of RP/6, Inc.	2,393,035	150,000	—	2,543,035	—
USO center revenue	2,424,982	—	—	2,424,982	5,238,723
Investment return, net	5,477,380	5,906,811	—	11,384,191	6,343,431
Other income	79,628	—	—	79,628	274,363
<b>Total Revenue and Support</b>	<b>256,031,810</b>	<b>18,568,449</b>	<b>—</b>	<b>274,600,259</b>	<b>217,821,094</b>
<b>Net Assets Released from Restrictions</b>	<b>14,616,780</b>	<b>(14,616,780)</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total Revenue and Other Support</b>	<b>270,648,590</b>	<b>3,951,669</b>	<b>—</b>	<b>274,600,259</b>	<b>217,821,094</b>
<b>Operating Expenses</b>					
Program services:					
USO centers	45,245,409	—	—	45,245,409	44,416,514
Transition programs	5,685,295	—	—	5,685,295	5,162,141
Military families & expeditionary programs	8,082,952	—	—	8,082,952	8,751,557
Contributed materials, facilities and services	134,027,691	—	—	134,027,691	76,809,031
Entertainment	4,949,120	—	—	4,949,120	6,129,596
Communications and public awareness outreach	16,533,536	—	—	16,533,536	20,324,927
Total program expenses	<b>214,524,003</b>	<b>—</b>	<b>—</b>	<b>214,524,003</b>	<b>161,593,766</b>
<b>Supporting Services</b>					
Fundraising	24,697,974	—	—	24,697,974	23,725,134
Management and general	14,400,002	—	—	14,400,002	14,383,057
Contributed materials, facilities and services	57,342	—	—	57,342	456,000
<b>Total Supporting Services</b>	<b>39,155,318</b>	<b>—</b>	<b>—</b>	<b>39,155,318</b>	<b>38,564,191</b>
<b>Total Operating Expenses</b>	<b>253,679,321</b>	<b>—</b>	<b>—</b>	<b>253,679,321</b>	<b>200,157,957</b>
<b>Changes in Net Assets</b>	<b>16,969,269</b>	<b>3,951,669</b>	<b>—</b>	<b>20,920,938</b>	<b>17,663,137</b>
<b>Net Assets, beginning of year</b>	<b>98,329,022</b>	<b>36,943,315</b>	<b>26,247,923</b>	<b>161,520,260</b>	<b>143,857,123</b>
<b>Net Assets, end of year</b>	<b>\$ 115,298,291</b>	<b>\$ 40,894,984</b>	<b>\$ 26,247,923</b>	<b>\$ 182,441,198</b>	<b>\$ 161,520,260</b>

*The accompanying notes are an integral part of this consolidated financial statement.*

# United Service Organizations, Inc.

## Consolidated Statements of Cash Flows

<i>Years ended December 31,</i>	<b>2017</b>	<b>2016</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 20,920,938	\$ 17,663,137
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,345,095	2,119,558
Contributed investments	(538,300)	(148,819)
Excess of assets acquired over liabilities assumed in the donation of RP/6, Inc.	(2,413,827)	—
Change in discount and allowance on contributions and other receivable, net	11,228	284,517
Realized/unrealized gain on investments	(9,757,431)	(4,585,337)
Contributions restricted for permanent endowment	(100,000)	(250,000)
Revenue from contributed inventory, equipment and vehicles	(1,437,803)	(1,061,027)
Contributed inventory used	1,012,555	879,544
Loss (gain) on disposal of fixed assets	49,579	(35,187)
Changes in assets and liabilities:		
Contributions receivable	(2,871,045)	(8,202,617)
Grants and other receivables	935,673	(1,848,566)
Prepaid expenses and other assets	(425,090)	165,340
Inventory	(10,101)	782,117
Accounts payable and accrued expenses	2,716,130	2,466,198
Deferred rent	1,284,617	(84,071)
<b>Net Cash Provided by Operating Activities</b>	<b>11,722,218</b>	<b>8,144,787</b>
<b>Cash Flows from Financing Activities</b>		
Contributions restricted for permanent endowment	100,000	250,000
<b>Net Cash Provided by Financing Activities</b>	<b>100,000</b>	<b>250,000</b>
<b>Cash Flows from Investing Activities</b>		
Cash received in acquisition of RP/6, Inc.	64,604	—
Purchase of fixed assets	(6,537,429)	(2,837,849)
Proceeds from the sale of fixed assets	40,870	37,939
Purchase of investments	(156,422,544)	(132,248,688)
Sales of investments	147,644,327	125,372,801
<b>Net Cash Used in Investing Activities</b>	<b>(15,210,172)</b>	<b>(9,675,797)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(3,387,954)</b>	<b>(1,281,010)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>28,292,556</b>	<b>29,573,566</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 24,904,602</b>	<b>\$ 28,292,556</b>
<b>Supplemental Cash Flow Information - Non Cash Investing Activities</b>		
Leasehold improvements paid by lessor	\$ 1,965,120	\$ —

*The accompanying notes are an integral part of these consolidated financial statements.*

# United Service Organizations, Inc.

## Notes to Consolidated Financial Statements

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*December 31, 2017 (with summarized comparative information for December 31, 2016)*

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### **NOTE A—ORGANIZATION**

United Service Organizations, Inc. (USO) is a not-for-profit, congressionally chartered, private organization devoted exclusively to strengthening America's military service members by keeping them connected to family, home and country, throughout their service to the nation. The USO relies on the generosity of individuals, organizations and corporations to support its activities. For over 75 years, the USO has been the nation's leading organization to serve the men and women in the U.S. military, and their families, throughout their time in uniform. From the moment they join, through their assignments and deployments, and as they transition back to their communities, the USO is always by their side.

Today's USO continuously adapts to the needs of our men and women in uniform and their families, so they can focus on their very important mission. We operate USO centers at or near military installations across the United States and throughout the world, including in combat zones, and even un-staffed USO service sites in places too dangerous for anyone but combat troops to occupy.

USO airport centers throughout the country offer around-the clock hospitality for traveling service members and their families. Our trademark USO tours bring America and its celebrities to service members who are assigned far from home, to entertain them and convey the support of the nation. Our many specialized programs offer a continuum support to service members throughout their journey of service, from the first time they don the uniform until they last time they take it off.

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### **NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Principles of Consolidation***

The accompanying consolidated financial statements reflect the accounts of United Service Organizations, Inc. and the USO Foundation. All intercompany accounts and transactions have been eliminated.

Chartered stateside USO affiliates are financially autonomous of the USO and are, therefore, excluded from the USO's consolidated financial statements.

The USO Foundation (Foundation) was incorporated as a supporting organization on March 22, 2007 to carry out and support the general charitable purposes of the USO. The Foundation's accounts are included in the consolidated financial statements.

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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December 31, 2017 (with summarized comparative information for December 31, 2016)

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### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

#### *Use of Estimates*

The presentation of consolidated financial statements in accordance 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Net Assets*

Net assets are classified and reported as follow:

*Unrestricted:* Net assets that are not subject to donor-imposed stipulations. Included in unrestricted net assets are amounts that have been designed by the Board of Governors for a specific purpose.

*Temporarily Restricted:* Temporarily restricted net assets represent those resources that are subject to donor-imposed stipulations that will be met either by the actions of the USO and/or by the passage of time.

*Permanently Restricted:* Permanently restricted net assets represent those resources that are subject to donor-imposed stipulations that they be maintained permanently by the USO. Revenues and gains on permanently restricted net assets are reported as increases in unrestricted or temporarily restricted net assets dependent on the donor-imposed stipulations.

#### *Foreign Currency*

The USO operates centers at military installations around the world. The United States dollar is the functional currency of the USO; however, the USO maintains financial assets and liabilities in foreign currencies to meet the local obligations of the centers. The financial assets and liabilities in foreign currencies are translated using exchange rates in effect at the end of the period and revenue and costs are translated using weighted average exchange rates for the period.

#### *Cash and Cash Equivalents*

The USO considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

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*December 31, 2017 (with summarized comparative information for December 31, 2016)*

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#### **NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

##### ***Investment Income***

Investment income is presented net of investment advisory/management fees in the accompanying consolidated statement of activities.

##### ***Inventory***

Inventories are stated at the lower of cost or market determined on a first-in, first-out basis.

Contributed product inventory is recorded at the fair value on the date received. Management periodically reviews inventory levels for slow-moving or obsolete inventory and adjusts the fair value, if necessary.

##### ***Investments and Fair Value Measurements***

The USO values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy that prioritizes the inputs to valuation techniques is used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into the follow three levels, based on the reliability of inputs:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are observable at the measurement date;

Level 2 – Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and

Level 3 – Significant unobservable inputs for the asset or liability that reflect the reporting entity's own estimates about the assumptions that market participants would use in pricing the asset or liability.

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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December 31, 2017 (with summarized comparative information for December 31, 2016)

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### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

#### *Investments and Fair Value Measurements—Continued*

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

*Money market funds:* The carrying value of money market funds held as investments approximate the fair value due to the short maturity of these instruments.

*Corporate bonds and government obligations:* When quoted prices are available in an active market, they are classified within Level 1 of the fair value hierarchy. Quoted prices in inactive markets are classified within Level 2. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flow models. The most significant inputs to the discounted cash flow model are the coupon, yield and expected maturity date. The fair values of corporate bonds, international bonds or government obligations that are estimated using pricing models or matrix pricing based on observable prices of the investments that trade in inactive markets are generally classified within Level 2 of the fair value hierarchy. Securities are classified within Level 3 when there is limited activity or less transparency concerning inputs to the valuation.

*Equity securities and mutual funds:* Valued at the closing share price reported on the active market on which the individual securities are traded.

*Alternative investments:* Alternative investments consist of investments in funds of funds based on their underlying investments. The funds in this class of investments invest primarily in managed futures, foreign exchange and private investment companies to achieve diversification to provide for increased return and/or reduced volatility. The fair values of such investments are determined using the net asset value (NAV) per share as a practical expedient. Investments, classified within Level 2 of the fair value hierarchy are redeemable monthly.

#### *Fixed Assets*

Furniture, fixtures, equipment, and other capitalized assets are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the respective assets, which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the lesser of the terms of the lease or the expected useful lives of the improvements.

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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*December 31, 2017 (with summarized comparative information for December 31, 2016)*

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### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

#### *Contributed Materials and Facilities*

Donated facilities, equipment use, materials and supplies received from the United States Government and other donors are reflected in the accompanying consolidated financial statements as support to the USO at the estimated fair value when received or when an unconditional pledge to contribute has been made.

#### *Contributed Services*

The USO recognizes contributions of services received if such services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

The USO receives contributions of services from celebrities in order to carry out its program of providing free celebrity entertainment tours for military personnel around the world. The USO also receives contributions of media air time to promote its Public Service Announcements. These contributions of services are reflected in the accompanying consolidated financial statements as support to the USO at the estimated fair value when received. As these contributions of services are expended in the year that the services are provided, a corresponding expense equal to the estimated fair market value of the services provided is recognized in the accompanying consolidated financial statements.

In addition, USO receives services from a large number of volunteers who give significant amounts of time to the USO's programs. No amounts have been reflected for these types of donated services, as they do not meet the criteria outlined above.

#### *Contributions*

Contributions, including unconditional promises to give, are recognized as revenues in the period received or pledged. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor. Contributions with temporary, donor-imposed time or purpose restrictions are recorded as temporarily restricted support. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase to temporarily restricted support at the time of receipt and as net assets released from restrictions. The principal and any donor restricted income from permanently restricted contributions are classified as permanently restricted net assets. Income on those assets, not permanently restricted by the donor, is classified as temporarily restricted.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

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*December 31, 2017 (with summarized comparative information for December 31, 2016)*

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#### **NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

##### ***Contributions—Continued***

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using credit-adjusted interest rates determined at the time the promise to give is made by a donor. Amortization of the discounts is included in contribution revenue in the accompanying consolidated statement of activities. Allowances are recorded for estimated uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Unconditional promises to give product inventory that are expected to be received within three months or less are recorded at their net realizable value which is the estimated fair value based on a minimal timeframe between promise to give and receipt of goods. Inventory receivables are recorded at wholesale value. Wholesale value of the items donated is determined based on management's best estimate using information provided by donors and other third parties. The USO does not accept or record inventory receivables that are expected to be collected in greater than one year. Management considers all promises to give of product inventory to be fully collectible, therefore no allowance is recorded. Contributions receivable included \$221,598 and \$129,208 of unconditional promises to give product inventory as of December 31, 2017 and 2016, respectively.

##### ***Grant Revenue***

Grant revenue on cost-reimbursement grants or contracts is recognized when program expenditures have been incurred. Billed and unbilled receivables of the government grants are expected to be collected within one year and are recorded at net realizable value as grant receivables in the consolidated statement of financial position. Such grant programs are subject to independent audit under the Office of Management and Budget Uniform Guidance and review by grantor agencies. Such review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the USO's management believes that costs ultimately disallowed, if any, would not materially affect the consolidated financial position of the USO.

##### ***USO Center Revenue***

USO Center Revenue represents amounts collected for cultural tours, canteen operations, gift shops and a variety of other activities of USO centers located at military installations around the world. Revenue is recorded when earned. Amounts received in advance for tours and other activities are recorded as deferred revenue and included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

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*December 31, 2017 (with summarized comparative information for December 31, 2016)*

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#### **NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

##### ***Other Receivables***

The carrying value of the USO's other receivables represents their estimated net realizable value. As of December 31, 2017 and 2016, the USO has recorded an allowance for doubtful accounts against other receivables of \$150,000 and \$150,000, respectively. The USO estimates an allowance for doubtful accounts based on historical collection rates. In addition, the USO records specific allowances based on facts that become known after revenue is earned.

##### ***Concentration of Credit Risk***

Financial instruments that potentially subject the USO to a concentration of credit risk include cash deposits with commercial banks. The USO's cash management policies limit its exposure to a concentration of credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Cash deposits may exceed the FDIC insurable limits at times throughout the year due to anticipated large expenses under various projects. As of December 31, 2017, balances held in accounts in excess of the FDIC insurable limit were \$23,754,384. Management does not consider this to be a significant credit risk. Amounts in foreign bank accounts total \$617,177 and \$721,185 at December 31, 2017 and 2016, respectively.

##### ***Functional Allocation of Expenses***

The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying consolidated schedules of functional expenses. Certain costs have been allocated among the program and supporting services benefited.

##### ***Income Taxes***

The USO and Foundation are exempt from federal income tax under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as organizations described in IRC Section 501(c)(3). However, income generated from activities unrelated to the exempt purposes of the organizations are subject to tax under IRC Section 511. USO and Foundation have processes presently in place to ensure the maintenance of tax-exempt status; to identify and report unrelated income; to determine filing and tax obligations in jurisdictions for which the organization has nexus; and to identify and evaluate other matters that may be considered income tax positions. Neither the USO nor Foundation had any material unrelated business income tax liability for the years ended December 31, 2017 and 2016. Therefore, no income tax liability has been provided in the accompanying consolidated financial statements.

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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*December 31, 2017 (with summarized comparative information for December 31, 2016)*

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### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

#### *Income Taxes—Continued*

US GAAP requires that an income tax position be recognized or derecognized based on a “more likely than not” threshold. USO and Foundation follow guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. The tax years ending December 31, 2017, 2016, 2015 and 2014 are still open to audit for both federal and state purposes. USO and Foundation have determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

#### *Prior Year Summarized Information*

The consolidated financial statements include certain prior year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the USO's consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

#### *Reclassifications*

Certain 2016 financial statement amounts were reclassified to conform to the December 31, 2017 presentation. As a result, USO centers expense has decreased by \$67,053, military families & expeditionary programs expense has decreased by \$5,095,088 and transition programs expense has increased by \$5,162,141. Such reclassifications did not change the changes in net assets reflected in the 2016 consolidated financial statements.

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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*December 31, 2017 (with summarized comparative information for December 31, 2016)*

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### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

#### *New Accounting Pronouncements*

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02 “Leases (Topic 842),” which supersedes the guidance in former ASC Topic 840 “Leases.” The most significant change will result in the recognition of lease assets for the right to use the underlying asset, and lease liabilities for the obligation to make lease payments by lessees, for those leases classified as operating leases under current guidance. The new guidance will also require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. This standard is effective for the fiscal year ending December 31, 2020, with early adoption permitted. Upon adoption of ASU 2016-02, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The USO believes adoption of this standard will have a significant impact on the statements of financial position and is evaluating the impact this ASU will have on the statements of activities and cash flows.

In August 2016, the FASB issued ASU 2016-14 to Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends several requirements for financial statements and notes, including net asset classifications in the statements of financial position and statements of activities and enhanced disclosures in numerous areas. This standard is effective for the fiscal year ending December 31, 2018, with early adoption permitted. The USO is evaluating the impact this ASU will have on the financial statement presentation.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. This standard is effective for the fiscal year ending December 31, 2018, with early adoption permitted. The USO is evaluating the impact this ASU will have on the financial statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB issued ASU 2015-14 that deferred the effective date until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its financial statements.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2017 (with summarized comparative information for December 31, 2016)

#### NOTE C—CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net consist of the following unconditional promises to give as of December 31:

	2017	2016
Less than one year	\$ 16,093,906	\$ 10,649,942
One to five years	2,741,543	5,003,966
More than five years	51,073	61,288
	18,886,522	15,715,196
Discount	(228,670)	(265,288)
Allowance for doubtful accounts	(327,386)	(285,275)
	\$ 18,330,466	\$ 15,164,633

Amounts presented above have been discounted to present value using various discount rates ranging between 1% to 4%.

#### NOTE D—INVESTMENTS

At December 31, investments consists of the following:

	2017	2016
Corporate and commercial obligations	\$ 15,102,062	\$ 12,113,173
U.S. Treasury securities and other government obligations	34,781,041	37,998,037
Corporate equity securities	41,234,713	35,039,833
Mutual funds	25,501,008	20,509,545
Money market holdings	12,946,614	5,501,254
Alternative investments	1,999,848	1,334,560
	\$ 131,565,286	\$ 112,496,402

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2017 (with summarized comparative information for December 31, 2016)

#### NOTE D—INVESTMENTS—Continued

The following schedule summarizes investment return for the year ending December 31:

	2017	2016
Interest and dividends	\$ 2,240,161	\$ 2,311,091
Net unrealized gains	6,675,271	3,421,460
Net realized gains	3,049,852	1,163,877
Less: investment expenses	(581,093)	(552,997)
	\$ 11,384,191	\$ 6,343,431

Investments, excluding alternative investments, were recorded at fair value as of December 31, 2017 based on the following level of hierarchy:

	Total	Reported at NAV	Level 1	Level 2	Level 3
Corporate and commercial obligations	\$ 15,102,062	\$ —	\$ 15,102,062	\$ —	\$ —
U.S. Treasury securities and other government obligations	34,781,041	—	34,781,041	—	—
Corporate equity securities	41,234,713	—	41,234,713	—	—
Mutual funds	25,501,008	—	25,501,008	—	—
Money market holdings	12,946,614	—	12,946,614	—	—
Alternative investments*	1,999,848	1,999,848	—	—	—
	\$ 131,565,286	\$ 1,999,848	\$ 129,565,438	\$ —	\$ —

\* In accordance with ASC Subtopic 820-10, investments measured at fair value using net asset value (“NAV”) per share as a practical expedient have not been categorized in the fair value hierarchy.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2017 (with summarized comparative information for December 31, 2016)

#### NOTE D—INVESTMENTS—Continued

Investments were recorded at fair value as of December 31, 2016 based on the following level of hierarchy:

	Total	Reported at NAV	Level 1	Level 2	Level 3
Corporate and commercial obligations	\$ 12,113,173	\$ —	\$ 12,113,173	\$ —	\$ —
U.S. Treasury securities and other government obligations	37,998,037	—	37,998,037	—	—
Corporate equity securities	35,039,833	—	35,039,833	—	—
Mutual funds	20,509,545	—	20,509,545	—	—
Money market holdings	5,501,254	—	5,501,254	—	—
Alternative investments*	1,334,560	1,334,560	—	—	—
	<u>\$ 112,496,402</u>	<u>\$ 1,334,560</u>	<u>\$ 111,161,842</u>	<u>\$ —</u>	<u>\$ —</u>

\* In accordance with ASC Subtopic 820-10, investments measured at fair value using net asset value (“NAV”) per share as a practical expedient have not been categorized in the fair value hierarchy.

The following tables detail certain attributes pertaining to the investments reported at fair value using a NAV, or its equivalent, as of December 31, 2017 and 2016. These disclosures are required for all investments that are eligible to be valued using the practical expedient regardless of whether the practical expedient has been applied.

	Fair Value at 12/31/2017	Fair Value at 12/31/2016	Unfunded Commitments	Expected Liquidation Term	Redemption Terms	Redemption Restrictions at 12/31/17
Limited Partnership	\$ 629,662	\$ —	\$2,385,000	Not applicable	Upon liquidation Weekly on Wednesday, except first week of the month, when it's the 1 <sup>st</sup> business day, upon 3 days' prior notice	Not applicable
Bond fund	<u>1,370,186</u>	<u>1,334,560</u>	None	Not applicable		None
	<u>\$ 1,999,848</u>	<u>\$ 1,334,560</u>				

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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December 31, 2017 (with summarized comparative information for December 31, 2016)

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### NOTE E—COMMITMENTS AND CONTINGENCIES

#### *Operating Leases*

The USO leases office space and equipment under various long-term lease agreements expiring 2017 through 2027. Lease incentives are amortized and recognized as expense over the term of the lease on a straight-line basis. Unamortized amounts are recorded as deferred rent in the accompanying consolidated statements of financial position.

Future minimum payments under operating leases with terms of one year or more, including the lease assumed subsequent to December 31, 2017, are as follows:

2018	\$ 1,528,580
2019	1,519,161
2020	1,549,017
2021	1,587,505
2022	1,627,189
2023 and thereafter	7,075,832
	<hr/>
	\$ 14,887,284

For the years ended December 31, 2017 and 2016, total rental expense under all operating leases was \$1,625,337 and \$1,411,628, respectively (excluding related in-kind support).

#### *Other*

The USO is subject to claims and suits arising in the ordinary course of its operations. In the opinion of management, the ultimate resolution of any outstanding legal proceedings will not have a material effect on the USO's financial position, change in net assets, or cash flows.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2017 (with summarized comparative information for December 31, 2016)

#### NOTE F—FIXED ASSETS

At December 31, fixed assets consist of the following:

	2017	2016
Furniture, fixtures, and equipment	\$ 14,189,537	\$ 12,806,493
Leasehold improvements	15,834,506	11,369,001
Internally developed software	730,502	—
	<u>30,754,545</u>	<u>24,175,494</u>
Less: accumulated depreciation and amortization	(18,791,813)	(18,506,844)
	<u>\$ 11,962,732</u>	<u>\$ 5,668,650</u>

For the years ending December 31, 2017 and 2016, depreciation and amortization expense totaled \$2,345,095 and \$2,119,558, respectively.

#### NOTE G—NET ASSETS

Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors or by the passage of time during the years ended December 31, 2017 and 2016 as follows:

	2017	2016
Education fund	\$ 13,422	\$ 13,273
Military families and expeditionary programs	4,129,035	5,723,017
USO centers	1,709,927	2,176,462
Transition programs	3,002,418	2,213,140
Other programs	—	867,821
Passage of time	5,637,641	1,943,834
Appropriation of endowment earnings	124,337	—
	<u>\$ 14,616,780</u>	<u>\$ 12,937,547</u>

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2017 (with summarized comparative information for December 31, 2016)

#### NOTE G—NET ASSETS—Continued

At December 31, 2017 and 2016, net assets consisted of the following:

	2017	2016
Unrestricted		
Operating	\$ 71,052,121	\$ 58,989,534
Board designated	44,246,170	39,339,488
Total unrestricted	115,298,291	98,329,022
Temporarily restricted		
Education fund	713,826	644,100
Military families and expeditionary programs	3,641,460	5,622,860
USO centers	1,454,060	2,373,660
Transition programs	4,637,582	460,000
Other programs	186,752	186,752
Time restricted	3,614,809	6,708,774
Unappropriated endowment earnings	26,646,495	20,947,169
Total temporarily restricted	40,894,984	36,943,315
Permanently restricted		
Spirit of Hope endowment	25,572,923	25,572,923
Other endowments	375,000	275,000
Other	300,000	400,000
Total permanently restricted	26,247,923	26,247,923
Total net assets	\$ 182,441,198	\$ 161,520,260

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

*December 31, 2017 (with summarized comparative information for December 31, 2016)*

#### NOTE H—ALLOCATION OF JOINT COSTS

The USO conducts activities that include appeals for contributions. These activities primarily include direct-response campaigns. The costs of conducting those joint activities were allocated as follows in 2017 and 2016:

	2017	2016
Programs	\$ 10,985,817	\$ 11,260,470
Management and general	6,226,467	6,653,452
Fundraising	13,428,674	13,744,950
	<u>\$ 30,640,958</u>	<u>\$ 31,658,872</u>

#### NOTE I—CONTRIBUTED MATERIALS, FACILITIES AND SERVICES

A summary by category of in-kind support donated for the years ended December 31, is as follows:

	2017	2016
Celebrity entertainment	\$ 26,152,956	\$ 35,267,483
Center facilities	11,565,644	8,896,917
Public Service Announcements	86,335,176	21,969,998
Materials and other	10,809,479	10,289,115
	<u>\$ 134,863,255</u>	<u>\$ 76,423,513</u>

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

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*December 31, 2017 (with summarized comparative information for December 31, 2016)*

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#### **NOTE J—RETIREMENT PLAN**

The USO maintains a 401(a) with a 401(k) component plan named the United Service Organizations Retirement Savings Plan (RSP). The RSP allows eligible participants to contribute both pre-tax and Roth contributions to the RSP, as well as, allows the USO to contribute both employer matching contributions and safe harbor non-elective contributions. Employer matching contributions vest 100 percent over a period of five years; whereas, safe harbor non-elective contributions vest 100 percent over a period of 2 years. In 2016 and 2015, the USO contributed a safe harbor non-elective contribution on behalf of each eligible employee in an amount equal to 4 percent of the employee's compensation without regard to whether the employee makes any employee contributions, subject to federal limitations. Additionally, in 2017 and 2016, the USO contributed a discretionary employer matching contribution equal to 100% of the employee's salary deferral contributions, up to a maximum of 5 percent of the employee's compensation.

The USO's policy is to fund retirement plan costs as accrued. Retirement plan expense was \$2,300,941 and \$2,184,761 for the years ended December 31, 2017 and 2016, respectively.

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#### **NOTE K—ENDOWMENT**

The USO's endowment consists of the Spirit of Hope endowment and other individual funds established for a variety of purposes. The Spirit of Hope endowment includes both donor-restricted endowment funds and funds designated by the Board of Governors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Governors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The District of Columbia Uniform Prudent Management of Institutional Funds Act (DC-UPMIFA) imposes guidelines on the management and investment of endowment funds. Management of the USO has interpreted DC-UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the USO classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. As of December 31, 2016, there are no immediate plans for the earnings of the endowment to be spent as the expressed purpose of the Endowment is to ensure the availability of funds for the long-term sustainability of the USO and its programs and services.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2017 (with summarized comparative information for December 31, 2016)

#### NOTE K—ENDOWMENT—Continued

The USO has adopted an investment policy for the endowment fund. This investment policy is based on growing the endowment fund to provide financial stability for the USO in perpetuity with no short term plans for withdraws from the fund. The USO's ability to tolerate risk and volatility should be consistent with that of a conservative growth portfolio, with investments made in companies that demonstrate consistent growth over time. Asset allocations are developed in accordance with this long-term, conservative growth strategy.

The following illustrates endowment net asset composition by type of fund and the changes in endowment net assets for the year ended December 31:

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 26,646,495	\$ 25,947,923	\$ 52,594,418
Board-designated endowment funds	44,246,170	—	—	44,246,170
Total funds	\$ 44,246,170,	\$ 26,646,495	\$ 25,947,923	\$ 96,840,588

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 39,339,488	\$ 20,947,169	\$ 25,847,923	\$ 86,134,580
Contributions	—	—	100,000	100,000
Investment return:				
Investment income	335,038	419,924	—	754,962
Net appreciation	4,571,644	5,403,739	—	9,975,383
Total additions	4,906,682	5,823,663	100,000	10,830,345
Amounts appropriated for expenditure	—	124,337	—	124,337
Endowment net assets, end of year	\$ 44,246,170	\$ 26,646,495	\$ 25,947,923	\$ 96,840,588

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2017 (with summarized comparative information for December 31, 2016)

#### NOTE K—ENDOWMENT—Continued

The following illustrates endowment net asset composition by type of fund and the changes in endowment net assets for the year ended December 31:

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 20,947,169	\$ 25,847,923	\$ 46,795,092
Board-designated endowment funds	39,339,488	—	—	39,339,488
Total funds	\$ 39,339,488	\$ 20,947,169	\$ 25,847,923	\$ 86,134,580

2016	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 36,455,402	\$ 17,527,484	\$ 25,597,923	\$ 79,580,809
Contributions	—	—	250,000	250,000
Investment return:				
Investment income	2,249,062	2,658,419	—	4,907,481
Net appreciation	635,024	761,266	—	1,396,290
Total additions	2,884,086	3,419,685	250,000	6,553,771
Endowment net assets, end of year	\$ 39,339,488	\$ 20,947,169	\$ 25,847,923	\$ 86,134,580

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

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*December 31, 2017 (with summarized comparative information for December 31, 2016)*

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#### **NOTE L—ACQUISITION OF RP/6, Inc.**

The USO executed an asset acquisition agreement to acquire the assets of RP/6, Inc. (RP/6), a nonprofit corporation, and assume agreed upon liabilities of RP/6 effective January 1, 2017. The purpose of this acquisition is to enhance and further expand the transition support services currently provided by the USO to reach more military service members and their families. There was no cash consideration associated with the acquisition agreement.

As the USO is predominately supported by contributions and returns on investments and this is not expected to change as a result of this acquisition, the excess of the fair value of assets acquired over the fair value of liabilities assumed as a result of the acquisition has been recognized as a separate charge in the statement of activities on the effective date of the acquisition as follows:

Cash	\$ 64,604
Contributions receivable	2,164,165
Fixed assets	219,066
Other assets (prepaid expenses, security deposit, etc.)	118,282
Liabilities assumed	<u>(23,082)</u>
Excess of assets acquired over liabilities assumed in the donation of RP/6, Inc.	<u>\$ 2,543,035</u>

Contributions receivable includes long term pledges receivables, amounts due from the USO as of December 31, 2017 as part of a grant agreement, and a cash advance made by RP/6, Inc. during 2017 in connection with the execution of the assets acquisition agreement. All receivables are expected to be fully collected.

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#### **NOTE M—SUBSEQUENT EVENTS**

The USO evaluated its December 31, 2017 consolidated financial statements for subsequent events through, April 24, 2018, the date the consolidated financial statements were available to be issued, and concluded that no additional disclosures are required.

## Supplemental Information



United Service Organizations, Inc.

Consolidated Schedule of Functional Expenses

December 31,

2017

	Program Services						Fund-raising	Management and General	Total Operating Expenses
	USO Centers	Transition Programs	Military Families & Expeditionary Programs	Entertainment	Communications and Public Awareness Outreach	Total			
Salaries	\$ 20,643,222	\$ 3,093,893	\$ 763,733	\$ 1,136,503	\$ 2,116,786	\$ 27,754,137	\$ 3,824,158	\$ 4,525,004	\$ 36,103,299
Payroll taxes	1,665,414	222,504	56,953	80,479	148,623	2,173,973	264,691	302,955	2,741,619
Retirement plan	1,258,501	184,763	56,189	76,704	144,888	1,721,045	264,375	315,521	2,300,941
Employee benefits	1,963,757	193,441	69,727	95,400	148,774	2,471,099	330,149	469,779	3,271,027
Total salaries and related expenses	25,530,894	3,694,601	946,602	1,389,086	2,559,071	34,120,254	4,683,373	5,613,259	44,416,886
Program supplies and services	15,468,926	1,213,921	6,679,962	26,261,810	—	49,624,619	—	—	49,624,619
Office expenses	1,506,060	69,812	1,070	1,423	3,635	1,582,000	140,913	135,759	1,858,672
Information Technology	3,445,805	131,851	63,509	31,969	102,761	3,775,895	171,594	274,867	4,222,356
Printing and production	28,816	36,266	—	836,990	4,662,131	5,564,203	9,639,445	3,305,149	18,508,797
Marketing and promotion	—	10,678	—	—	88,018,907	88,029,585	1,264,649	—	89,294,234
Awards and grants	1,602,957	—	—	—	—	1,602,957	—	—	1,602,957
Professional fees	897,744	222,806	11,331	916,625	2,763,711	4,812,217	3,434,298	1,595,595	9,842,110
Subscriptions, dues, and staff training	208,181	17,702	99	6,980	13,326	246,288	110,956	136,478	493,722
Travel	1,433,007	247,196	254,020	1,484,429	213,132	3,631,784	475,867	213,429	4,321,080
General insurance	239,326	5,464	13,347	8,801	26,277	293,215	51,121	63,656	407,992
Occupancy	11,895,505	139,987	342,852	105,606	221,887	12,705,837	367,364	426,243	13,499,444
Rental and maintenance of equipment	439,646	47,089	6,365	6,365	15,116	514,581	26,255	31,825	572,661
Postage and shipping	338,631	7,943	972,685	13,709	4,148,731	5,481,699	3,286,259	2,330,643	11,098,601
Meetings, conferences and events	135,094	513	1,139	—	37,365	174,111	451,574	71,179	696,864
Depreciation and amortization	1,968,031	76,524	17,566	17,566	105,116	2,184,803	72,461	87,831	2,345,095
Other expenses	114,645	—	15,882	49,428	—	179,955	570,597	122,679	873,231
Functional expenses, gross	\$ 65,253,268	\$ 5,922,353	\$ 9,326,429	\$ 31,130,787	\$ 102,891,166	\$ 214,524,003	\$ 24,746,726	\$ 14,408,592	\$ 253,679,321
Note: In-kind expenses included in expenses listed above	\$ 20,007,859	\$ 237,058	\$ 1,243,477	\$ 26,181,667	\$ 86,357,630	\$ 134,027,691	\$ 48,752	\$ 8,590	\$ 134,085,033
Functional expenses, net	\$ 45,245,409	\$ 5,685,295	\$ 8,082,952	\$ 4,949,120	\$ 16,533,536	\$ 80,496,312	\$ 24,697,974	\$ 14,400,002	\$ 119,594,288

The accompanying notes are an integral part of this consolidated financial statement.

United Service Organizations, Inc.

Consolidated Schedule of Functional Expenses

December 31,

2016

	Program Services						Fund-raising	Management and General	Total Operating Expenses
	USO Centers	Transition Programs	Military Families & Expeditionary Programs	Entertainment	Communications and Public Awareness Outreach	Total			
Salaries	\$ 19,183,220	\$ 1,058,647	1,192,683	\$ 855,043	\$ 3,325,701	\$ 25,615,294	\$ 3,745,844	\$ 4,231,770	\$ 33,592,908
Payroll taxes	1,493,135	78,902	88,869	57,072	239,456	1,957,434	257,252	271,053	2,485,739
Retirement plan	1,172,938	70,742	87,538	60,427	237,448	1,629,093	259,526	296,142	2,184,761
Employee benefits	1,798,612	80,802	123,320	70,655	302,050	2,375,439	311,303	447,539	3,134,281
Total salaries and related expenses	23,647,905	1,289,093	1,492,410	1,043,197	4,104,655	31,577,260	4,573,925	5,246,504	41,397,689
Program supplies and services	15,738,960	3,618,680	8,057,728	35,506,876	—	62,922,244	—	—	62,922,244
Office expenses	1,694,371	72,467	8,281	2,654	41,839	1,819,612	143,129	176,183	2,138,924
Information Technology	3,061,730	24,610	88,913	33,949	201,298	3,410,500	198,824	121,006	3,730,330
Printing and production	33,461	9,602	2,483	1,519,763	4,808,079	6,373,388	10,438,233	3,241,224	20,052,845
Marketing and promotion	—	—	—	—	23,906,113	23,906,113	612,203	—	24,518,316
Awards and grants	2,014,810	—	—	—	—	2,014,810	—	—	2,014,810
Professional fees	1,016,268	—	63,071	971,854	4,109,780	6,160,973	2,392,006	2,399,728	10,952,707
Subscriptions, dues, and staff training	181,188	—	7,931	4,197	24,118	217,434	145,139	73,101	435,674
Travel	1,437,044	87,107	626,419	2,147,664	294,459	4,592,693	668,931	191,236	5,452,860
General insurance	192,012	—	21,734	9,813	38,218	261,777	46,912	54,370	363,059
Occupancy	9,196,235	24,410	191,416	70,805	278,892	9,761,758	338,319	342,169	10,442,246
Rental and maintenance of equipment	549,810	10,029	4,191	1,934	9,026	574,990	11,605	15,474	602,069
Postage and shipping	312,164	1,598	709,414	4,703	4,376,410	5,404,289	3,109,292	2,552,720	11,066,301
Meetings, conferences and events	303,841	237	3,995	42	104,031	412,146	681,437	66,076	1,159,659
Depreciation and amortization	1,969,489	24,308	12,480	5,760	26,880	2,038,917	34,560	46,080	2,119,557
Other expenses	55,670	—	10,269	78,920	3	144,862	524,844	118,961	788,667
Functional expenses, gross	\$ 61,404,958	\$ 5,162,141	11,300,735	\$ 41,402,131	\$ 42,323,801	\$ 161,593,766	\$ 23,919,359	\$ 14,644,832	\$ 200,157,957
Note: In-kind expenses included in expenses listed above	\$ 16,988,444	\$ —	2,549,178	\$ 35,272,535	\$ 21,998,874	\$ 76,809,031	\$ 194,225	\$ 261,775	\$ 77,265,031
Functional expenses, net	\$ 44,416,514	\$ 5,162,141	8,751,557	\$ 6,129,596	\$ 20,324,927	\$ 84,784,735	\$ 23,725,134	\$ 14,383,057	\$ 122,892,926

The accompanying notes are an integral part of this consolidated financial statement.