



Consolidated Financial Statements and Report of  
Independent Certified Public Accountants

**United Service Organizations, Inc.**

December 31, 2015

*(with summarized comparative information for December 31, 2014)*

# 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, 2015, 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, 2015, 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, 2015 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 2014 Summarized Comparative Information*

We have previously audited the USO's 2014 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 8, 2015. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2014 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 11, 2016 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 11, 2016

# United Service Organizations, Inc.

## Consolidated Statements of Financial Position

<i>December 31,</i>	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 29,573,566	\$ 39,775,144
Contributions receivable, net	7,323,076	11,501,652
Grants receivable	5,124,101	5,898,047
Other receivables, net	627,664	441,350
Prepaid expenses and other assets	2,249,556	1,562,653
Inventory	3,762,059	4,202,667
Investments	100,885,931	82,148,949
Fixed assets, net	4,914,736	5,477,787
<b>Total Assets</b>	<b>\$ 154,460,689</b>	<b>\$ 151,008,249</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 10,451,942	\$ 11,337,864
Deferred rent	151,624	260,783
<b>Total Liabilities</b>	<b>10,603,566</b>	<b>11,598,647</b>
<b>Net Assets</b>		
Unrestricted		
Operating	53,321,983	46,709,679
Board-designated		
Spirit of Hope	36,455,402	37,262,089
Total unrestricted	89,777,385	83,971,768
Temporarily restricted		
Desert Storm Education Fund	617,793	661,627
Spirit of Hope	17,527,484	18,469,436
Ongoing program activities	6,665,951	5,971,973
Time restricted	3,091,522	3,922,585
USO Centers and Councils	579,065	814,290
Total temporarily restricted	28,481,815	29,839,911
Permanently restricted		
Camp Casey	25,000	25,000
Spirit of Hope	25,572,923	25,572,923
Total permanently restricted	25,597,923	25,597,923
<b>Total Net Assets</b>	<b>143,857,123</b>	<b>139,409,602</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 154,460,689</b>	<b>\$ 151,008,249</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, 2015 (with summarized comparative information for December 31, 2014)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
<b>Revenue and Support</b>					
Contributions:					
Corporate, foundation and individual giving	\$ 15,141,540	\$ 7,553,705	\$ —	\$ 22,695,245	\$ 26,416,440
Direct response	70,058,182	368,455	—	70,426,637	75,076,614
United way and CFC	1,186,836	—	—	1,186,836	1,377,327
Contributed materials, facilities and services	84,065,808	1,066,419	—	85,132,227	62,014,623
Grants	20,370,582	—	—	20,370,582	17,903,755
USO center revenue	4,735,723	—	—	4,735,723	5,919,821
Investment (loss) income	(799,287)	(941,952)	—	(1,741,239)	3,479,886
Other income	134,705	—	—	134,705	67,012
<b>Total Revenue and Support</b>	<b>194,894,089</b>	<b>8,046,627</b>	<b>—</b>	<b>202,940,716</b>	<b>192,255,478</b>
<b>Net Assets Released from Restrictions</b>	<b>9,404,723</b>	<b>(9,404,723)</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total Revenue and Other Support</b>	<b>204,298,812</b>	<b>(1,358,096)</b>	<b>—</b>	<b>202,940,716</b>	<b>192,255,478</b>
<b>Operating Expenses</b>					
Program services:					
USO centers	36,708,379	—	—	36,708,379	46,468,910
Programs	12,517,791	—	—	12,517,791	12,471,780
Contributed materials, facilities and services	84,678,705	—	—	84,678,705	61,855,134
Entertainment	8,345,598	—	—	8,345,598	7,413,632
Communications and public awareness outreach	17,483,138	—	—	17,483,138	18,001,314
<b>Total program expenses</b>	<b>159,733,611</b>	<b>—</b>	<b>—</b>	<b>159,733,611</b>	<b>146,210,770</b>
<b>Supporting Services</b>					
Fundraising	23,070,908	—	—	23,070,908	24,326,347
Management and general	15,472,933	—	—	15,472,933	16,175,396
Contributed materials, facilities and services	215,743	—	—	215,743	151,394
<b>Total Supporting Services</b>	<b>38,759,584</b>	<b>—</b>	<b>—</b>	<b>38,759,584</b>	<b>40,653,137</b>
<b>Total Operating Expenses</b>	<b>198,493,195</b>	<b>—</b>	<b>—</b>	<b>198,493,195</b>	<b>186,863,907</b>
<b>Changes in Net Assets</b>	<b>5,805,617</b>	<b>(1,358,096)</b>	<b>—</b>	<b>4,447,521</b>	<b>5,391,571</b>
<b>Net Assets, beginning of year</b>	<b>83,971,768</b>	<b>29,839,911</b>	<b>25,597,923</b>	<b>139,409,602</b>	<b>134,018,031</b>
<b>Net Assets, end of year</b>	<b>\$ 89,777,385</b>	<b>\$ 28,481,815</b>	<b>\$ 25,597,923</b>	<b>\$ 143,857,123</b>	<b>\$ 139,409,602</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>2015</b>	<b>2014</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 4,447,521	\$ 5,391,571
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,187,262	2,310,863
Contributed investments	(758,251)	(280,436)
Change in discount and allowance on contributions receivable, net	(24,756)	133,456
Change in allowance for inventory obsolescence	(24,800)	(18,667)
Realized/unrealized loss (gain) on investments	3,281,272	(1,528,182)
Revenue from contributed inventory, construction materials, equipment	(1,215,974)	(1,070,314)
Contributed inventory used	1,304,086	1,059,822
(Gain) loss on disposal of fixed assets	(8,400)	64,714
Changes in assets and liabilities		
Programmatic investments	—	5,950,000
Contributions receivable	4,394,482	6,422,780
Grants and other receivables	566,600	(571,687)
Prepaid expenses and other assets	(686,903)	906,146
Inventory	207,177	323,739
Accounts payable and accrued expenses	(888,390)	1,033,400
Deferred rent	(109,159)	(106,505)
<b>Net Cash Provided by Operating Activities</b>	<b>12,671,767</b>	<b>20,020,700</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of fixed assets	(1,631,612)	(1,060,900)
Proceeds from the sale of fixed assets	15,801	3,137
Purchase of investments	(148,489,638)	(78,523,887)
Sales of investments	127,232,104	76,359,519
<b>Net Cash Used in Investing Activities</b>	<b>(22,873,345)</b>	<b>(3,222,131)</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(10,201,578)</b>	<b>16,798,569</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>39,775,144</b>	<b>22,976,575</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 29,573,566</b>	<b>\$ 39,775,144</b>

*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, 2015 (with summarized comparative information for December 31, 2014)*

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### **NOTE A—ORGANIZATION**

United Service Organizations, Inc. (USO) is a not-for-profit, congressionally chartered, private organization devoted exclusively to lifting the spirits of America's troops and their families. The USO is not part of the United States Government, but is recognized by the Department of Defense, Congress and President of the United States, who serves as Honorary Chairman of USO. The USO relies on the generosity of individuals, organizations and corporations to support its activities. For over seventy years its mission has been to enhance the quality of life for military personnel and their families by helping them adjust to the special rigors of a transient military lifestyle and by fostering a partnership between the military and civilian communities. To carry out its mission, the USO provides a touch of home through Centers at airports and military installations around the world, free celebrity entertainment tours, and innovative programs and services for troops and their families to meet their ever-changing needs. The USO also provides critical support to those who need us most, including forward deployed troops, military families, wounded warriors and families of the fallen.

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

#### ***Basis of Presentation***

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.

#### ***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.

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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December 31, 2015 (with summarized comparative information for December 31, 2014)

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

#### *Net Assets*

Net assets, which are composed of unrestricted, temporarily and permanently restricted funds, are described below:

#### **Unrestricted Funds:**

- *Operating*—Funds that are generated from general activities and are used to support day-to-day programs and operations.
- *Spirit of Hope*—Funds which have been designated by the Board of Governors to assist the USO in delivering its programs and services for many years into the future. These Board designated contributions and investment earnings are available to fund operations. The fund was established in 1998 with a transfer of funds from the Desert Storm Education Fund. In the event that the Desert Storm Education Fund does not have sufficient resources to meet its obligations as originally intended, the funds transferred from the Desert Storm Education Fund to the Spirit of Hope shall be available to satisfy any such remaining obligations.

#### **Temporarily Restricted Funds:**

- *Desert Storm Education Fund*—Contributions restricted to provide for academic or vocational scholarships to surviving family members of casualties of Desert Shield/Storm operations. On December 31, 2020, the fund shall be terminated and any funds remaining shall be transferred to the Spirit of Hope Endowment and held in perpetuity for the benefit of the USO.
- *Time Restriction*—Certain contributions receivable result from multi-year pledges, and accordingly the amounts due in future years (at their discounted value) have been recorded as temporarily restricted until the year when the pledges becomes due.
- *Ongoing Program Activities*—Contributions restricted for various worldwide USO programs, such as USO Operation Phone Home, USO2GO, United Through Reading's Military Program, family support, transition services and other programming.
- *USO Centers and Councils*—Donor funds restricted for use in certain USO Centers and regional localities.
- *Spirit of Hope*—Earnings on donor-restricted endowment funds classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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December 31, 2015 (with summarized comparative information for December 31, 2014)

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

#### Permanently Restricted Funds:

- *Camp Casey Endowment*—A contribution which has been restricted by the donor to be held in perpetuity, with stipulations on a portion of the earnings to be used for Camp Casey and the remaining to be used for on-going programs and services.
- *Spirit of Hope Endowment Fund*—Funds to be held in perpetuity, with the earnings available to assist the USO in delivering its programs and services for many years into the future. These contributions are from Congressional appropriations and from corporate and individual contributions.

#### *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.

#### *Investments*

Investments are stated at fair value. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based upon market prices with gains and losses included in the statements of activities, unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. USO reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

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.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

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*December 31, 2015 (with summarized comparative information for December 31, 2014)*

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

##### ***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.

##### ***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, 2015 (with summarized comparative information for December 31, 2014)*

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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. As of December 31, 2015, contributions receivable included \$170,119 of unconditional promises to give product inventory. As of December 31, 2014, there were no unconditional promises to give product inventory included in contributions receivable.

##### ***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, 2015 (with summarized comparative information for December 31, 2014)*

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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, 2015 and 2014, the USO has recorded an allowance for doubtful accounts against other receivables of \$171,032 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, 2015, balances held in accounts in excess of the FDIC insurable limit were \$28,609,837. Management does not consider this to be a significant credit risk. Amounts in foreign bank accounts total \$739,269 and \$1,649,745 at December 31, 2015 and 2014, 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 is exempt from federal income tax under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in IRC Section 501(c)(3). However, income generated from activities unrelated to the USO's exempt purpose is subject to tax under IRC Section 511. USO has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The USO did not have any material unrelated business income tax liability for the years ended December 31, 2015 and 2014. Therefore, no income tax liability has been provided in the accompanying consolidated financial statements.

US GAAP requires that an income tax position be recognized or derecognized based on a "more likely than not" threshold. USO follows 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, 2015, 2014, 2013 and 2012 are still open to audit for both federal and state purposes. USO has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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December 31, 2015 (with summarized comparative information for December 31, 2014)

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

#### *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, 2014, from which the summarized information was derived.

#### *USO Foundation*

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.

#### *Reclassifications*

Certain 2014 amounts were reclassified between payables and prepaid expenses and other assets, management and general expenses and investment income, and management and general expenses and fundraising expenses and contributed materials, facilities and services to conform to the December 31, 2015 presentation. Such reclassifications did not change the changes in net assets reflected in the 2014 consolidated financial statements.

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### NOTE C—CONTRIBUTIONS RECEIVABLE, NET

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

	2015	2014
Less than one year	\$ 7,156,402	\$ 10,691,953
One to five years	340,185	1,100,500
More than five years	71,503	—
	<hr/> 7,568,090	<hr/> 11,792,453
Discount	(63,464)	(82,751)
Allowance for doubtful accounts	(181,550)	(208,050)
	<hr/> \$ 7,323,076	<hr/> \$ 11,501,652

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2015 (with summarized comparative information for December 31, 2014)

#### NOTE C—CONTRIBUTIONS RECEIVABLE, NET—Continued

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 are recorded at fair value and consist of the following:

	2015	2014
Corporate and commercial obligations	\$ 12,316,846	\$ 1,160,440
U.S. Treasury securities and other government obligations	30,537,259	19,294,975
Corporate equity securities	31,981,931	23,525,475
Mutual funds	18,703,056	22,624,586
Money market holdings	6,073,658	15,543,473
Alternative investments	1,273,181	—
	<u>\$ 100,885,931</u>	<u>\$ 82,148,949</u>

The following schedule summarizes investment return:

	2015	2014
Interest and dividends	\$ 1,946,661	\$ 2,288,922
Net unrealized loss	(4,305,966)	(9,971,214)
Net realized gains	1,024,694	11,499,396
Less: investment expenses	(406,628)	(337,218)
	<u>\$ (1,741,239)</u>	<u>\$ 3,479,886</u>

FASB ASC 820, *Fair Value Measurement*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that USO has the ability to access.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

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December 31, 2015 (with summarized comparative information for December 31, 2014)

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#### NOTE D—INVESTMENTS—Continued

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2015 and 2014.

*Money market:* Carrying value of cash equivalents such as money market funds approximates the fair value due to the short maturity of these investments.

*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.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2015 (with summarized comparative information for December 31, 2014)

#### NOTE D—INVESTMENTS—Continued

Investments were recorded at fair value as of December 31, 2015 based on the following level of hierarchy:

	Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate and commercial obligations	\$ 12,316,846	\$ 12,316,846	\$ —	\$ —
U.S. Treasury securities and other government obligations	30,537,259	30,537,259	—	—
Corporate equity securities	31,981,931	31,981,931	—	—
Mutual funds	18,703,056	18,703,056	—	—
Money market holdings	6,073,658	6,073,658	—	—
Alternative investments	1,273,181	—	1,273,181	—
	<u>\$ 100,885,931</u>	<u>\$ 99,612,750</u>	<u>\$ 1,273,181</u>	<u>\$ —</u>

Investments were recorded at fair value as of December 31, 2014 based on the following level of hierarchy:

	Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate and commercial obligations	\$ 1,160,440	\$ 1,160,440	\$ —	\$ —
U.S. Treasury securities and other government obligations	19,294,975	19,294,975	—	—
Corporate equity securities	23,525,475	23,525,475	—	—
Mutual funds	22,624,586	22,624,586	—	—
Money market holdings	15,543,473	15,543,473	—	—
	<u>\$ 82,148,949</u>	<u>\$ 82,148,949</u>	<u>\$ —</u>	<u>\$ —</u>

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2015 (with summarized comparative information for December 31, 2014)

#### NOTE E—COMMITMENTS AND CONTINGENCIES

##### *Operating Leases*

The USO leases office space and equipment under long-term lease agreements. The office leases provide for scheduled rent increases and increases in operating expenses and real estate taxes attributable to the leased property and expire in January 2017. As part of a lease agreement, the USO received eight months of free rent on a portion of the space and reimbursement for certain leasehold improvements as lease incentives, which are recorded as deferred rent in the accompanying consolidated statements of financial position. Scheduled rent increases and these incentives are being recognized over the term of the lease on a straight-line basis.

On March 22, 2016, an amendment to an office lease was executed which extends the lease through January 2027. The amendment provides for scheduled rent increases and operating expenses attributable to the leased property.

Future minimum payments under this operating lease and other equipment operating leases are as follows:

2016	\$	1,231,017
2017		1,241,107
2018		1,466,614
2019		1,511,003
2020		1,548,782
2021 and thereafter		7,151,925
	\$	<u>14,150,448</u>

For the years ended December 31, 2015 and 2014, total rental expense under all operating leases was \$1,246,235 and \$1,217,050, 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, 2015 (with summarized comparative information for December 31, 2014)*

#### NOTE F—FIXED ASSETS

At December 31, fixed assets consist of the following:

	2015	2014
Furniture, fixtures, and equipment	\$ 12,864,841	\$ 11,778,197
Leasehold improvements	9,882,297	9,952,545
	22,747,138	21,730,742
Less: accumulated depreciation and amortization	(17,832,402)	(16,252,955)
	\$ 4,914,736	\$ 5,477,787

For the years ending December 31, 2015 and 2014, depreciation expense totaled \$2,187,262 and \$2,310,863, respectively.

#### NOTE G—NET ASSETS RELEASED FROM RESTRICTIONS

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, 2015 and 2014 as follows:

	2015	2014
Desert Storm Education Fund	\$ 17,773	\$ 10,186
Ongoing program activities	6,211,390	9,386,412
Passage of time	1,168,857	1,452,228
USO Centers and Councils	2,006,703	1,369,930
	\$ 9,404,723	\$ 12,218,756

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

*December 31, 2015 (with summarized comparative information for December 31, 2014)*

#### NOTE H—ALLOCATION OF JOINT COSTS

The USO conducts direct response mail campaigns that include fund-raising appeals, as well as program and management and general components. The costs of conducting those joint activities were allocated as follows in 2015 and 2014:

	2015	2014
Programs	\$ 10,509,974	\$ 10,427,601
Management and general	7,038,532	7,213,472
Fundraising	14,851,231	15,404,727
	<u>\$ 32,399,737</u>	<u>\$ 33,045,800</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:

	2015	2014
Celebrity entertainment	\$ 37,118,498	\$ 37,736,000
Center facilities	8,111,243	8,212,916
Public Service Announcements	29,574,636	7,870,022
Materials and other	10,327,850	8,195,685
	<u>\$ 85,132,227</u>	<u>\$ 62,014,623</u>

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

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*December 31, 2015 (with summarized comparative information for December 31, 2014)*

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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 2015 and 2014, 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 2015 and 2014, 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 \$2,131,827 and \$1,810,781 for the years ended December 31, 2015 and 2014, respectively.

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#### **NOTE K—ENDOWMENT**

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.

During 2008, the District of Columbia enacted into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Management of the USO has interpreted the District of Columbia law 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, 2015, 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.

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.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

*December 31, 2015 (with summarized comparative information for December 31, 2014)*

#### 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:

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 17,527,484	\$ 25,597,923	\$ 43,125,407
Board-designated endowment funds	36,455,402	—	—	36,455,402
Total funds	\$ 36,455,402	\$ 17,527,484	\$ 25,597,923	\$ 79,580,809

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 37,262,089	\$ 18,469,436	\$ 25,597,923	\$ 81,329,448
Investment return:				
Investment income	547,320	646,939	—	1,194,259
Net depreciation	(1,354,007)	(1,588,891)	—	(2,442,898)
Total investment return	(806,687)	(941,952)	—	(1,748,639)
Endowment net assets, end of year	\$ 36,455,402	\$ 17,527,484	\$ 25,597,923	\$ 79,580,809

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2015 (with summarized comparative information for December 31, 2014)

#### 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:

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 18,469,436	\$ 25,597,923	\$ 44,067,359
Board-designated endowment funds	37,262,089	—	—	37,262,089
Total funds	\$ 37,262,089	\$ 18,469,436	\$ 25,597,923	\$ 81,329,448

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 35,656,381	\$ 16,571,470	\$ 25,597,923	\$ 77,825,774
Investment return:				
Investment income	908,410	1,073,752	—	1,982,162
Net appreciation	697,298	824,214	—	1,521,512
Total investment return	1,605,708	1,897,966	—	3,503,674
Endowment net assets, end of year	\$ 37,262,089	\$ 18,469,436	\$ 25,597,923	\$ 81,329,448

#### NOTE L—SUBSEQUENT EVENTS

The USO evaluated its December 31, 2015 consolidated financial statements for subsequent events through, April 11, 2016, the date the consolidated financial statements were available to be issued.

As disclosed in Note E, the USO executed a long-term lease agreement for office space and equipment on March 22, 2016. The USO is not aware of any other subsequent events which would require disclosure in the consolidated financial statements.

## Supplemental Information



United Service Organizations, Inc.

Consolidated Schedule of Functional Expenses

December 31,

2015

	Program Services					Fund-raising	Management and General	Total Operating Expenses
	USO Centers	Programs	Entertainment	Communications and Public Awareness Outreach	Total			
Salaries	\$ 17,044,004	\$ 1,274,793	\$ 1,020,954	\$ 2,836,983	\$ 22,176,734	\$ 3,076,198	\$ 4,565,998	\$ 29,818,930
Payroll taxes	1,270,722	94,147	71,577	211,196	1,647,642	218,092	329,047	2,194,781
Retirement plan	1,117,672	96,492	85,183	230,376	1,529,723	233,105	368,999	2,131,827
Employee benefits	1,562,188	133,461	101,114	295,260	2,092,023	297,700	501,331	2,891,054
<b>Total salaries and related expenses</b>	<b>20,994,586</b>	<b>1,598,893</b>	<b>1,278,828</b>	<b>3,573,815</b>	<b>27,446,122</b>	<b>3,825,095</b>	<b>5,765,375</b>	<b>37,036,592</b>
Program supplies and services	14,704,142	8,226,335	37,362,960	—	60,293,437	—	—	60,293,437
Office expenses	882,783	65,608	2,216	7,885	958,492	142,289	116,090	1,216,871
Information Technology	1,174,691	2,118,074	56,920	269,484	3,619,169	285,806	360,159	4,265,134
Printing and production	18,799	—	2,492,989	4,645,398	7,157,186	10,956,693	3,379,774	21,493,653
Marketing and promotion	—	12,218	—	30,061,270	30,073,488	708,399	—	30,781,887
Awards and grants	1,109,814	—	—	—	1,109,814	—	—	1,109,814
Professional fees	827,146	418,473	712,635	3,343,462	5,301,716	2,207,898	1,989,762	9,499,376
Subscriptions, dues, and staff training	102,032	30,739	9,520	25,709	168,000	125,188	68,885	362,073
Travel	1,271,061	967,091	3,150,178	227,787	5,616,117	403,765	324,352	6,344,234
General insurance	154,937	21,067	11,557	44,749	232,310	42,539	63,768	338,617
Occupancy	8,297,952	195,771	71,054	251,752	8,816,529	257,808	394,680	9,469,017
Rental and maintenance of equipment	425,794	5,096	3,528	11,759	446,177	14,895	16,854	477,926
Postage and shipping	274,152	611,019	3,621	4,596,046	5,484,838	3,413,057	2,783,021	11,680,916
Meetings, conferences and events	365,741	2,375	9,864	6,685	384,665	463,770	59,462	907,897
Depreciation and amortization	2,067,346	23,983	23,983	23,983	2,139,295	23,983	23,984	2,187,262
Other expenses	20,256	123,947	342,053	—	486,256	374,988	167,245	1,028,489
<b>Functional expenses, gross</b>	<b>\$ 52,691,232</b>	<b>\$ 14,420,689</b>	<b>\$ 45,531,906</b>	<b>\$ 47,089,784</b>	<b>\$ 159,733,611</b>	<b>\$ 23,246,173</b>	<b>\$ 15,513,411</b>	<b>\$ 198,493,195</b>
Note: In-kind expenses included in expenses listed above	\$ 15,982,853	\$ 1,902,898	\$ 37,186,308	\$ 29,606,646	\$ 84,678,705	\$ 175,265	\$ 40,478	\$ 84,894,448
<b>Functional expenses, net</b>	<b>\$ 36,708,379</b>	<b>\$ 12,517,791</b>	<b>\$ 8,345,598</b>	<b>\$ 17,483,138</b>	<b>\$ 75,054,906</b>	<b>\$ 23,070,908</b>	<b>\$ 15,472,933</b>	<b>\$ 113,598,747</b>

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

**United Service Organizations, Inc.**

Consolidated Schedule of Functional Expenses

December 31,

2014

	Program Services					Fund-raising	Management and General	Total Operating Expenses
	USO Centers	Programs	Entertainment	Communications and Public Awareness Outreach	Total			
Salaries	\$ 16,195,755	\$ 1,275,873	\$ 974,911	2,754,979	\$ 21,201,518	\$ 2,687,306	\$ 5,022,783	\$ 28,911,607
Payroll taxes	1,290,161	87,038	63,823	199,208	1,640,230	202,752	343,279	2,186,261
Retirement plan	927,037	84,767	64,583	200,179	1,276,566	173,641	360,574	1,810,781
Employee benefits	1,355,104	132,263	77,181	256,791	1,821,339	223,597	506,424	2,551,360
<b>Total salaries and related expenses</b>	<b>19,768,057</b>	<b>1,579,941</b>	<b>1,180,498</b>	<b>3,411,157</b>	<b>25,939,653</b>	<b>3,287,296</b>	<b>6,233,060</b>	<b>35,460,009</b>
Contribution of center and related costs	10,399,383	—	—	—	10,399,383	—	—	10,399,383
Program supplies and services	12,693,303	7,616,036	38,416,522	—	58,725,861	—	—	58,725,861
Office expenses	591,558	29,199	1,518	15,373	637,648	142,708	124,046	904,402
Information Technology	1,220,302	2,204,234	59,907	348,306	3,832,749	293,665	384,204	4,510,618
Printing and production	29,418	774	1,899,464	4,720,682	6,650,338	11,323,145	3,329,219	21,302,702
Marketing and promotion	—	—	—	8,841,513	8,841,513	1,151,627	—	9,993,140
Awards and grants	3,091,892	10,186	—	—	3,102,078	—	—	3,102,078
Professional fees	488,294	142,725	687,500	2,661,307	3,979,826	3,131,199	2,062,207	9,173,232
Subscriptions, dues, and staff training	98,490	26,413	10,510	43,133	178,546	105,035	95,438	379,019
Travel	1,284,939	1,147,901	2,640,398	405,776	5,479,014	456,836	270,744	6,206,594
General insurance	153,093	24,051	10,617	39,670	227,431	36,437	62,524	326,392
Occupancy	8,660,602	203,728	63,877	238,538	9,166,745	220,317	397,297	9,784,359
Rental and maintenance of equipment	436,865	8,318	4,815	18,055	468,053	15,046	28,287	511,386
Postage and shipping	155,843	455,339	6,264	5,080,373	5,697,819	3,371,228	2,989,176	12,058,223
Meetings, conferences and events	252,320	3,211	9,880	43,510	308,921	446,928	61,488	817,337
Depreciation and amortization	2,039,544	54,264	54,264	54,264	2,202,336	54,264	54,263	2,310,863
Other expenses	170,088	75,617	127,151	—	372,856	384,216	141,237	898,309
<b>Functional expenses, gross</b>	<b>\$ 61,533,991</b>	<b>\$ 13,581,937</b>	<b>\$ 45,173,185</b>	<b>\$ 25,921,657</b>	<b>\$ 146,210,770</b>	<b>\$ 24,419,947</b>	<b>\$ 16,233,190</b>	<b>\$ 186,863,907</b>
Note: In-kind expenses included in expenses listed above	\$ 15,065,081	\$ 1,110,157	\$ 37,759,553	\$ 7,920,343	\$ 61,855,134	\$ 93,600	\$ 57,794	\$ 62,006,528
<b>Functional expenses, net</b>	<b>\$ 46,468,910</b>	<b>\$ 12,471,780</b>	<b>\$ 7,413,632</b>	<b>\$ 18,001,314</b>	<b>\$ 84,355,636</b>	<b>\$ 24,326,347</b>	<b>\$ 16,175,396</b>	<b>\$ 124,857,379</b>

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