

Consolidated Financial Statements and  
Report of Independent Certified Public  
Accountants

**United Service Organizations, Inc.**

December 31, 2018 and 2017

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## Report of Independent Certified Public Accountants

Board of Board of Governors  
United Service Organizations, Inc.

### Report On the Financial Statements

We have audited the accompanying consolidated financial statements of United Service Organizations, Inc. (USO), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 opinions.

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### 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, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Arlington, Virginia  
May 3, 2019

United Service Organizations, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

(In thousands of dollars)

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 16,250	\$ 24,905
Contributions receivable, net	23,782	18,330
Grants receivable	8,673	6,144
Other receivables, net	533	536
Prepaid expenses and other assets	3,605	2,604
Inventory	2,884	3,499
Operating investments	40,347	34,700
Endowment investments	89,999	96,865
Fixed assets, net	<u>11,977</u>	<u>11,963</u>
Total assets	<u>\$ 198,050</u>	<u>\$ 199,546</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 13,044	\$ 13,788
Deferred rent	<u>3,158</u>	<u>3,317</u>
Total liabilities	16,202	17,105
<b>NET ASSETS</b>		
Without donor restrictions	111,293	115,298
With donor restrictions	<u>70,555</u>	<u>67,143</u>
Total net assets	<u>181,848</u>	<u>182,441</u>
Total liabilities and net assets	<u>\$ 198,050</u>	<u>\$ 199,546</u>

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, 2018

(In thousands of dollars)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, gains and other support</b>			
Contributions:			
Corporate, foundation and individual giving	\$ 21,485	\$ 20,913	\$ 42,398
Direct response	65,672	-	65,672
United way and CFC	557	-	557
Contributed materials, facilities and services	149,656	846	150,502
Grants	19,181	-	19,181
USO center revenue	1,577	-	1,577
Investment return (loss), net	607	(45)	562
Other income	176	-	176
Net assets released from restrictions	14,597	(14,597)	-
Total operating revenue, gains, and other support	<u>273,508</u>	<u>7,117</u>	<u>280,625</u>
<b>Program services expense</b>			
USO centers	48,782	-	48,782
Transition programs	5,913	-	5,913
Military families & expeditionary programs	7,224	-	7,224
Contributed materials, facilities and services	150,452	-	150,452
Entertainment	5,283	-	5,283
Communications and public awareness outreach	17,315	-	17,315
Total program services expense	<u>234,969</u>	<u>-</u>	<u>234,969</u>
<b>Supporting services expense</b>			
Fundraising	25,932	-	25,932
Management and general	13,255	-	13,255
Contributed materials, facilities and services	234	-	234
Total supporting services expense	<u>39,421</u>	<u>-</u>	<u>39,421</u>
Total operating expenses	<u>274,390</u>	<u>-</u>	<u>274,390</u>
<b>Operating revenues in excess of operating expense, before nonoperating</b>	(882)	7,117	6,235
<b>Nonoperating:</b>			
Contributions:			
Excess of assets acquired over liabilities assumed in the donation of RP/6, Inc.	-	-	-
Endowment investment return (loss), net	(3,123)	(3,705)	(6,828)
Total nonoperating activity	<u>(3,123)</u>	<u>(3,705)</u>	<u>(6,828)</u>
<b>CHANGE IN NET ASSETS</b>	(4,005)	3,412	(593)
<b>Net assets, beginning of year</b>	<u>115,298</u>	<u>67,143</u>	<u>182,441</u>
<b>Net assets, end of year</b>	<u>\$ 111,293</u>	<u>\$ 70,555</u>	<u>\$ 181,848</u>

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

United Service Organizations, Inc.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended December 31, 2017

(In thousands of dollars)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, gains and other support</b>			
Contributions:			
Corporate, foundation and individual giving	\$ 22,690	\$ 11,405	\$ 34,095
Direct response	69,230	55	69,285
United way and CFC	902	-	902
Contributed materials, facilities and services	133,812	1,051	134,863
Grants	19,023	-	19,023
USO center revenue	2,425	-	2,425
Investment return, net	569	85	654
Other income	80	-	80
Net assets released from restrictions	14,617	(14,617)	-
Total operating revenue, gains, and other support	<u>263,348</u>	<u>(2,021)</u>	<u>261,327</u>
<b>Program services expense</b>			
USO centers	45,245	-	45,245
Transition programs	5,685	-	5,685
Military families & expeditionary programs	8,083	-	8,083
Contributed materials, facilities and services	134,028	-	134,028
Entertainment	4,949	-	4,949
Communications and public awareness outreach	16,534	-	16,534
Total program services expense	<u>214,524</u>	<u>-</u>	<u>214,524</u>
<b>Supporting services expense</b>			
Fundraising	24,698	-	24,698
Management and general	14,400	-	14,400
Contributed materials, facilities and services	57	-	57
Total supporting services expense	<u>39,155</u>	<u>-</u>	<u>39,155</u>
Total operating expenses	<u>253,679</u>	<u>-</u>	<u>253,679</u>
<b>Operating revenues in excess of operating expense, before nonoperating</b>	9,669	(2,021)	7,648
<b>Nonoperating:</b>			
Contributions:			
Excess of assets acquired over liabilities assumed in the donation of RP/6, Inc.	2,393	150	2,543
Endowment investment return, net	4,907	5,823	10,730
Total nonoperating activity	<u>7,300</u>	<u>5,973</u>	<u>13,273</u>
<b>CHANGES IN NET ASSETS</b>	16,969	3,952	20,921
<b>Net assets, beginning of year</b>	<u>98,329</u>	<u>63,191</u>	<u>161,520</u>
<b>Net assets, end of year</b>	<u>\$ 115,298</u>	<u>\$ 67,143</u>	<u>\$ 182,441</u>

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

United Service Organizations, Inc.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ending December 31, 2018  
(In thousands of dollars)

	Program Services					Supporting Services			Total Operating Expenses
	USO Centers	Transition Programs	Military Families & Expeditionary Programs	Entertainment	Communications and Public Awareness Outreach	Total	Fund- raising	Management and General	
Salaries	\$ 22,213	\$ 3,407	\$ 1,083	\$ 1,313	\$ 2,605	\$ 30,621	\$ 3,933	\$ 4,750	\$ 39,304
Payroll taxes	1,819	261	68	89	170	2,407	277	321	3,005
Retirement plan	1,469	223	76	95	188	2,051	282	351	2,684
Employee benefits	2,330	231	76	115	143	2,895	320	474	3,689
Total salaries and related expenses	27,831	4,122	1,303	1,612	3,106	37,974	4,812	5,896	48,682
Program supplies and services	14,390	1,006	6,344	33,472	-	55,212	-	-	55,212
Office expenses	983	79	1	3	7	1,073	70	145	1,288
Information Technology	3,241	98	18	23	51	3,431	155	477	4,063
Printing and production	58	34	9	1,087	5,669	6,857	10,782	2,558	20,197
Marketing and promotion	-	154	-	29	96,877	97,060	2,183	-	99,243
Awards and grants	1,958	-	-	-	-	1,958	-	-	1,958
Professional fees	914	14	106	615	1,439	3,088	2,292	1,085	6,465
Subscriptions, dues, and staff training	156	6	-	12	25	199	81	222	502
Travel	1,669	145	98	1,498	172	3,582	367	273	4,222
General insurance	208	18	12	27	29	294	46	51	391
Occupancy	14,126	138	235	84	191	14,774	334	394	15,502
Rental and maintenance of equipment	410	18	1	1	3	433	5	30	468
Postage and shipping	520	18	997	6	4,404	5,945	3,737	1,854	11,536
Meetings, conferences and events	292	-	-	2	19	313	152	69	534
Depreciation and amortization	2,404	84	34	34	77	2,633	122	145	2,900
Other expenses	108	-	-	35	-	143	909	175	1,227
Functional expenses, gross	69,268	5,934	9,158	38,540	112,069	234,969	26,047	13,374	274,390
Note: In-kind expenses included in expenses listed above	20,486	21	1,934	33,257	94,754	150,452	115	119	150,686
<b>Functional expenses, net</b>	<b>\$ 48,782</b>	<b>\$ 5,913</b>	<b>\$ 7,224</b>	<b>\$ 5,283</b>	<b>\$ 17,315</b>	<b>\$ 84,517</b>	<b>\$ 25,932</b>	<b>\$ 13,255</b>	<b>\$ 123,704</b>

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

United Service Organizations, Inc.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ending December 31, 2017  
(In thousands of dollars)

	Program Services					Supporting Services			Total Operating Expenses
	USO Centers	Transition Programs	Military Families & Expeditionary Programs	Entertainment	Communications and Public Awareness Outreach	Total	Fund- raising	Management and General	
Salaries	\$ 20,643	\$ 3,094	\$ 764	\$ 1,137	\$ 2,117	\$ 27,755	\$ 3,824	\$ 4,525	\$ 36,104
Payroll taxes	1,665	223	57	80	149	2,174	265	303	2,742
Retirement plan	1,259	185	56	77	145	1,722	264	316	2,302
Employee benefits	1,964	193	70	95	149	2,471	330	470	3,271
Total salaries and related expenses	25,531	3,695	947	1,389	2,560	34,122	4,683	5,614	44,419
Program supplies and services	15,469	1,212	6,680	26,262	-	49,623	-	-	49,623
Office expenses	1,506	70	1	1	4	1,582	141	136	1,859
Information Technology	3,446	132	64	32	103	3,777	172	275	4,224
Printing and production	29	36	-	837	4,662	5,564	9,639	3,305	18,508
Marketing and promotion	-	11	-	-	87,925	87,936	1,265	-	89,201
Awards and grants	1,603	-	-	-	-	1,603	-	-	1,603
Professional fees	898	223	11	917	2,857	4,906	3,434	1,596	9,936
Subscriptions, dues, and staff training	208	18	-	7	13	246	111	136	493
Travel	1,433	247	254	1,484	213	3,631	476	213	4,320
General insurance	239	5	13	9	26	292	51	64	407
Occupancy	11,896	140	343	106	222	12,707	367	426	13,500
Rental and maintenance of equipment	440	47	6	6	15	514	26	32	572
Postage and shipping	339	8	973	14	4,149	5,483	3,286	2,331	11,100
Meetings, conferences and events	135	1	1	-	38	175	452	70	697
Depreciation and amortization	1,968	77	18	18	105	2,186	72	88	2,346
Other expenses	113	-	15	49	-	177	572	122	871
Functional expenses, gross	65,253	5,922	9,326	31,131	102,892	214,524	24,747	14,408	253,679
Note: In-kind expenses included in expenses listed above	20,008	237	1,243	26,182	86,358	134,028	49	8	134,085
<b>Functional expenses, net</b>	<b>\$ 45,245</b>	<b>\$ 5,685</b>	<b>\$ 8,083</b>	<b>\$ 4,949</b>	<b>\$ 16,534</b>	<b>\$ 80,496</b>	<b>\$ 24,698</b>	<b>\$ 14,400</b>	<b>\$ 119,594</b>

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

United Service Organizations, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ending December 31, 2018 and 2017  
(In thousands of dollars)

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (593)	\$ 20,921
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,902	2,345
Contributed investments	(240)	(538)
Excess of assets acquired over liabilities assumed in the donation of RP/6, Inc.	-	(2,414)
Change in discount and allowance on contributions and other receivable, net	487	11
Realized/unrealized (gain) loss on investments	8,574	(9,757)
Contributions restricted for endowment	(100)	(100)
Revenue from contributed inventory, equipment and vehicles	(2,156)	(1,438)
Contributed inventory used	2,384	1,013
Loss (gain) on disposal of fixed assets	(19)	50
Changes in assets and liabilities		
Contributions receivable	(6,031)	(2,873)
Grants and other receivables	(2,525)	936
Prepaid expenses and other assets	(961)	(425)
Inventory	(17)	(10)
Accounts payable and accrued expenses	(744)	2,716
Deferred rent	(159)	1,285
Net cash provided by operating activities	<u>802</u>	<u>11,722</u>
<b>Cash flows from financing activities:</b>		
Contributions restricted for endowment	<u>100</u>	<u>100</u>
Net cash provided by financing activities	<u>100</u>	<u>100</u>
<b>Cash flows from investing activities:</b>		
Cash received in acquisition of RP/6, Inc.	-	65
Purchase of fixed assets	(2,491)	(6,537)
Proceeds from the sale of fixed assets	48	41
Purchase of investments	(152,108)	(156,423)
Sales of investments	<u>144,994</u>	<u>147,644</u>
Net cash used in investing activities	<u>(9,557)</u>	<u>(15,210)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(8,655)</b>	<b>(3,388)</b>
<b>Cash and cash equivalents, beginning of year</b>	<u>24,905</u>	<u>28,293</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 16,250</u>	<u>\$ 24,905</u>
<b>Supplemental cash flow information - non cash Investing activities:</b>		
Leasehold improvements paid by lessor	<u>\$ -</u>	<u>\$ 1,965</u>

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

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
**(In thousands of dollars)**

**NOTE A - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES**

**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 of support to service members throughout their journey of service, from the first time they don the uniform until the last time they take it off.

**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.

**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.

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
**(In thousands of dollars)**

**NOTE A - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Cash and Cash Equivalents**

The USO considers all cash and highly liquid financial investments with original maturities of three months or less to be cash and cash equivalents.

**Contributions Receivable**

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 initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statements of activities. Allowances for uncollectible contributions are determined based on management's judgment and analysis of the creditworthiness of the donors, past collection experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectible.

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 \$132 and \$222 of unconditional promises to give product inventory as of December 31, 2018 and 2017, respectively.

**Other Receivables**

The carrying value of the USO's other receivables represents their estimated net realizable value. The USO determines the allowance for doubtful accounts based on historical experience, an assessment of economic conditions, and a review of subsequent collections. In addition, the USO records specific allowances based on facts that become known after revenue is earned. Other receivables are written off when deemed uncollectible. At December 31, 2018 and 2017, the allowance for doubtful accounts against other receivables totaled \$150.

**Inventory**

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

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**

**December 31, 2018 and 2017**  
**(In thousands of dollars)**

**NOTE A - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Investments**

The USO records investment purchases at cost, or if donated, at fair value on that date of donation. Thereafter, investments are reported at their fair values in the consolidated statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

**Fair Value Measurements**

The USO reports certain assets and liabilities at fair value in the consolidated financial statements. Fair value is 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.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement; however, the determination of what constitutes observable requires significant judgment by USO. The USO considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the fair value hierarchy is based on the pricing transparency of the instrument and does not necessarily correspond to USO's assessment of the quality, risk, or liquidity profile of the asset or liability.

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
**(In thousands of dollars)**

**NOTE A - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

**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, 2018 and 2017.

Investments with values that are based on quoted market prices in active markets classified within Level 1 include active listed equities, mutual funds, and fixed income funds. Money market funds held as investments are also classified within Level 1 as their carrying value approximates fair value due to the short maturity of these instruments.

Investments that trade in markets that are not considered to be active, but that are valued based on quoted market prices or if quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flow models are classified within Level 2. 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.

The USO uses net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair value of certain hedge funds, private equity funds, funds of funds and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy. The alternative investments consist of investments invested 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 these investments are determined using the NAV per share as a practical expedient.

**Fixed Assets**

Furniture, fixtures, equipment, and other capitalized assets over \$2,500 are recorded at cost, or if donated, at fair value on the date of donation. Depreciated is computed 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 useful life of the improvement or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the consolidated statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed when incurred.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017  
(In thousands of dollars)

NOTE A - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES - Continued

**Net Assets**

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions. The Board of Governors has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

*With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Measure of Operations**

The USO's operating revenues in excess of operating expenses include all operating revenues and expenses that are an integral part of its programs and supporting activities and net assets released from donor restrictions to support operating expenditures. The USO has presented net investment return (loss) on endowment investments and contribution revenue related to the excess of assets acquired over liabilities assumed in the acquisition of RP/6, Inc. as nonoperating in the consolidated statements of activities.

**Revenue and Revenue Recognition**

*Contributions*

Contributions, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets in the period received or pledged. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor.

*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.

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
**(In thousands of dollars)**

**NOTE A - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Revenue and Revenue Recognition - Continued**

*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.

*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 statements 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.

At December 31, 2018, the USO has available federal award funds of \$14,675 not recognized as revenue as all conditions have not been substantially met.

*USO Center Revenue*

USO Center Revenue represents amounts collected for cultural tours, canteen operations, gift shops and a variety of other activities at USO centers located at military installations around the world. Revenue is recognized 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**

**December 31, 2018 and 2017**  
**(In thousands of dollars)**

**NOTE A - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of functional expenses. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, insurance, and other, which are allocated on the basis of estimates of time and effort.

**Financial Instruments and Credit Risk**

Financial instruments that potentially subject the USO to credit risk consist primarily of cash, accounts receivable, and investments. The USO manages deposit concentration risk by placing cash, money market accounts, and certificates of deposits with financial institutions believed to be creditworthy. Additionally, various cash accounts are maintained 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, 2018, balances held in accounts in excess of the FDIC insurable limit were \$14,851. Amounts in foreign bank accounts total \$397 and \$617 at December 31, 2018 and 2017, respectively. The USO has not experienced any losses in these accounts and management does not consider this to be a significant credit risk. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and donors supportive of our mission.

Investments are made by diversified investment managers whose performance is monitored by the Foundation Board and the finance committee of the Board of Governors. The USO's investment policies also stipulate appropriate diversification of investment balances.

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
**(In thousands of dollars)**

**NOTE A - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Income Taxes**

The USO and Foundation are organized as District of Columbia nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as organizations described in IRC Section 501(c)(3). Each entity is annually required to file a Return of Organizations Exempt from Income Tax (Form 990) with the IRS. In addition, the organizations are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The USO files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income. The Foundation is not subject to unrelated business income tax and has not filed a Form 990-T with the IRS.

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, 2018, 2017, 2016 and 2015 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.

**Estimates**

The preparation 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.

**Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications made to 2017 amounts include changes to the net asset presentation due to the adoption of new accounting pronouncements, a change in presentation in investments in the Statement of Financial Position presented in Note D, and a reclassification of investment return on endowments and contributions associated with the acquisition of RP/6, Inc. as nonoperating revenue and expense on the Statement of Activities of \$10,730 and \$2,543, respectively, for the year ending December 31, 2017.

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
(In thousands of dollars)

**NOTE A - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Adoption of New Accounting Pronouncements**

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The USO has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 is as follows:

<u>Net Asset Classifications</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
As previously presented:			
Unrestricted	\$ 115,298	\$ -	\$ 115,298
Temporarily restricted	-	40,895	40,895
Permanently Restricted	-	26,248	26,248
	<u>\$ 115,298</u>	<u>\$ 67,143</u>	<u>\$ 182,441</u>
Net assets, as reclassified			

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. The USO has implemented ASU 2016-15 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

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. The USO has implemented ASU 2014-09 and has adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017  
(In thousands of dollars)

NOTE A - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES - Continued

**Recent Accounting Pronouncements**

In February 2016, the FASB issued 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.

NOTE B - LIQUIDITY AND AVAILABILITY

The USO regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The USO has various sources of liquidity at its disposal, including cash and cash equivalents and marketable debt and equity securities. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the USO considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support these activities to be general expenditures.

The USO receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs.

As of December 31, 2018, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	\$ 16,250
Contribution, grant and other receivables	28,358
Operating investments	40,347
Less: Restricted trusts included in operating investments	<u>(653)</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 84,302</u>

In addition to the above, the USO's Board of Governors has designated a portion of its unrestricted resources for an endowment. As of December 31, 2018, the board-designated value is \$41,123. These funds are invested for long-term appreciation but remain available and may be spent at the discretion of the Board of Governors.

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
(In thousands of dollars)

**NOTE C - CONTRIBUTIONS RECEIVABLE, NET**

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

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 19,152	\$ 16,094
One to five years	5,633	2,741
More than five years	<u>41</u>	<u>51</u>
	24,826	18,886
Less:		
Discount to net present value at rates ranging from 1% to 4%	(556)	(229)
Allowance for uncollectible contributions receivable	<u>(488)</u>	<u>(327)</u>
	<u>\$ 23,782</u>	<u>\$ 18,330</u>

**NOTE D - INVESTMENTS**

At December 31, investments consist of the following:

	<u>2018</u>	<u>2017</u>
Corporate and commercial obligations	\$ 19,463	\$ 15,102
U.S. Treasury securities and other government obligations	29,741	34,781
Corporate equity securities	35,086	41,235
Mutual funds	32,235	25,501
Money market holdings	10,421	12,946
Alternative investments	<u>3,400</u>	<u>2,000</u>
	<u>\$ 130,346</u>	<u>\$ 131,565</u>

Investments have been classified as operating and endowment investments in the Statement of Financial Position as follows:

	<u>2018</u>	<u>2017</u>
Operating investments	\$ 40,347	\$ 34,700
Endowment investments	<u>89,999</u>	<u>96,865</u>
	<u>\$ 130,346</u>	<u>\$ 131,565</u>

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
(In thousands of dollars)

**NOTE D - INVESTMENTS** - Continued

Investments, excluding alternative investments, were recorded at fair value as of December 31, 2018 based on the following level of hierarchy:

	<u>Total</u>	<u>Reported at NAV</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate and commercial obligations	\$ 19,463	\$ -	\$ 19,463	\$ -	\$ -
U.S. Treasury securities and other government obligations	29,741	-	29,741	-	-
Corporate equity securities	35,086	-	35,086	-	-
Mutual funds	32,235	-	32,235	-	-
Money market holdings	10,421	-	10,421	-	-
Alternative investments*	3,400	3,400	-	-	-
	<u>\$ 130,346</u>	<u>\$ 3,400</u>	<u>\$ 126,946</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>Total</u>	<u>Reported at NAV</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate and commercial obligations	\$ 15,102	\$ -	\$ 15,102	\$ -	\$ -
U.S. Treasury securities and other government obligations	34,781	-	34,781	-	-
Corporate equity securities	41,235	-	41,235	-	-
Mutual funds	25,501	-	25,501	-	-
Money market holdings	12,946	-	12,946	-	-
Alternative investments*	2,000	2,000	-	-	-
	<u>\$ 131,565</u>	<u>\$ 2,000</u>	<u>\$ 129,565</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.

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
(In thousands of dollars)

**NOTE D - INVESTMENTS - Continued**

The following table detail certain attributes pertaining to the investments reported at fair value using a NAV, or its equivalent, as of December 31, 2018 and 2017. 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 12/31/2018	Fair Value at 12/31/2017	Unfunded Commitments	Expected Liquidation Term	Redemption Terms	Redemption Restrictions at 12/31/18
Limited Partnership	\$ 2,101	\$ 630	\$960	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	1,299	1,370	None	Not applicable		None
	<u>\$ 3,400</u>	<u>\$ 2,000</u>				

**NOTE E - COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

The USO leases office space and equipment under various long-term lease agreements expiring 2019 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 are as follows:

Years ending December 31,	
2019	\$ 1,732
2020	1,751
2021	1,745
2022	1,755
2023	1,688
2024 and thereafter	<u>5,408</u>
	<u>\$ 14,079</u>

For the years ended December 31, 2018 and 2017, total rental expense under all operating leases was \$1,408 and \$1,625, respectively (excluding related in-kind support).

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
(In thousands of dollars)

**NOTE E - COMMITMENTS AND CONTINGENCIES - Continued**

**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.

**NOTE F - FIXED ASSETS**

At December 31, fixed assets consist of the following:

	<u>2018</u>	<u>2017</u>
Furniture, fixtures, and equipment	\$ 14,830	\$ 14,190
Leasehold improvements	16,711	15,835
Internally developed software	<u>1,168</u>	<u>730</u>
	32,709	30,755
Less: accumulated depreciation and amortization	<u>(20,732)</u>	<u>(18,792)</u>
	<u>\$ 11,977</u>	<u>\$ 11,963</u>

For the years ending December 31, 2018 and 2017, depreciation and amortization expense totaled \$2,902 and \$2,345, respectively.

**NOTE G - NET ASSETS**

Net assets were released from 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, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>
Education fund	\$ 15	\$ 13
Military families and expeditionary programs	3,695	4,129
USO centers	1,924	1,710
Transition programs	5,823	3,003
Passage of time	3,125	5,638
Appropriation of endowment earnings	<u>15</u>	<u>124</u>
	<u>\$ 14,597</u>	<u>\$ 14,617</u>

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
(In thousands of dollars)

**NOTE G - NET ASSETS** - Continued

At December 31, 2018 and 2017, net assets consisted of the following:

	<u>2018</u>	<u>2017</u>
Without donor restrictions		
Operating	\$ 70,170	\$ 71,052
Board designated endowment	<u>41,123</u>	<u>44,246</u>
Total without donor restrictions	<u>111,293</u>	<u>115,298</u>
With donor restrictions, subject to expenditure for specified purpose or passage of time		
Education fund	653	714
Military families and expeditionary programs	2,685	3,641
USO centers	7,231	1,454
Transition programs	5,457	4,638
Other programs	182	187
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	<u>5,173</u>	<u>3,615</u>
Total with donor restrictions, subject to expenditure for specified purpose or passage of time	<u>21,381</u>	<u>14,249</u>
Endowments subject to USO endowment spending policy and appropriation:		
Spirit of Hope endowment	48,487	52,194
Other endowments	487	400
Promises to give, restricted to endowment	<u>200</u>	<u>300</u>
Total endowments	49,174	52,894
Total net assets with donor restrictions	<u>70,555</u>	<u>67,143</u>
Total net assets	<u>\$ 181,848</u>	<u>\$ 182,441</u>

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
(In thousands of dollars)

**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 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Programs	\$ 11,017	\$ 10,986
Management and general	4,520	6,226
Fundraising	<u>15,518</u>	<u>13,429</u>
	<u>\$ 31,055</u>	<u>\$ 30,641</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:

	<u>2018</u>	<u>2017</u>
Celebrity entertainment	\$ 33,254	\$ 26,153
Center facilities	13,838	11,566
Public service announcements	94,540	86,335
Materials and other	<u>8,870</u>	<u>10,809</u>
	<u>\$ 150,502</u>	<u>\$ 134,863</u>

**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 2018 and 2017, 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 \$2,684 and \$2,302 for the years ended December 31, 2018 and 2017, respectively.

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
**(In thousands of dollars)**

**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.

Annually, the USO Foundation's Board of Governors approves an annual appropriation of the USO's Spirit of Hope endowment to cover administrative costs of the USO Foundation. In addition, during 2018, the USO adopted a spending policy establishing a spending rate of up to 2.5 percent on its all other endowments. This policy allows the Board to adjust this spending rate or make the determination to not spend funds in any given year.

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**

**December 31, 2018 and 2017**  
(In thousands of dollars)

**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:

<b>2018</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board-designated endowment	\$ 41,123	\$ -	\$ 41,123
Donor-restricted endowment:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	26,048	26,048
Accumulated net investment return	-	22,926	22,926
	<u>\$ 41,123</u>	<u>\$ 48,974</u>	<u>\$ 90,097</u>
<b>2017</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board-designated endowment	\$ 44,246	\$ -	\$ 41,123
Donor-restricted endowment:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	25,948	25,948
Accumulated net investment return	-	26,646	26,646
	<u>\$ 44,246</u>	<u>\$ 52,594</u>	<u>\$ 96,840</u>

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**  
(In thousands of dollars)

**NOTE K - ENDOWMENT - Continued**

<b>2018</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 44,246	\$ 52,594	\$ 96,840
Investment loss, net	(3,123)	(3,705)	(6,828)
Contributions	-	100	100
Appropriation of endowment net assets pursuant to spend-rate policy	-	(15)	(15)
Endowment net assets, end of year	<u>\$ 41,123</u>	<u>\$ 48,974</u>	<u>\$ 90,097</u>
<b>2017</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 39,339	\$ 46,795	\$ 86,134
Investment loss, net	4,907	5,823	10,730
Contributions	-	100	100
Appropriation of endowment net assets pursuant to spend-rate policy	-	(124)	(124)
Endowment net assets, end of year	<u>\$ 44,246</u>	<u>\$ 52,594</u>	<u>\$ 96,840</u>

**United Service Organizations, Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**(In thousands of dollars)**

**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 surplus in the statement of activities on the effective date of the acquisition as follows:

Cash	\$	65
Contributions receivable		2,164
Fixed assets		219
Other assets (prepaid expenses, security deposit, etc.)		118
Liabilities assumed		<u>(23)</u>
Excess of assets acquired over liabilities assumed in the donation of RP/6, Inc.	\$	<u>2,543</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.

**NOTE M - SUBSEQUENT EVENTS**

The USO evaluated its December 31, 2018 consolidated financial statements for subsequent events through, May 3, 2019, the date the consolidated financial statements were available to be issued, and concluded that no additional disclosures are required.