

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

United Service Organizations, Inc.

December 31, 2022 and 2021

Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated Financial Statements	
Consolidated statements of financial position	5
Consolidated statements of activities and changes in net assets	6
Consolidated statements of functional expenses	8
Consolidated statements of cash flows	10
Notes to consolidated financial statements	11

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Governors
United Service Organizations, Inc.

Opinion

We have audited the consolidated financial statements of the United Service Organizations, Inc (“USO”), which comprise the consolidated statements of financial position of December 31, 2022 and 2021, 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 financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the USO as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the USO and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter

As discussed in Notes A and G to the consolidated financial statements, the USO has adopted new accounting guidance in 2022 related to the accounting for leases. Our opinion is not modified with respect to this matter.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the USO’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the USO's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Arlington, Virginia
May 30, 2023

United Service Organizations, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**December 31,
(in thousands of dollars)**

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 17,786	\$ 37,311
Contributions receivable, net	28,030	22,126
Grants receivable	7,501	7,111
Other receivables	423	432
Prepaid expenses and other assets	4,265	3,347
Inventory	2,476	2,768
Operating investments	24,695	26,385
Endowment investments	145,272	166,673
Beneficial interest in assets held by others	243	303
Fixed assets, net	21,404	22,270
Right of use assets	6,920	-
	<u>\$ 259,015</u>	<u>\$ 288,726</u>
Total assets		
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 9,263	\$ 11,064
Deferred rent	-	2,971
Lease liability	9,506	-
	<u>18,769</u>	<u>14,035</u>
Total liabilities		
Net assets		
Without donor restrictions	151,686	176,307
With donor restrictions	88,560	98,384
	<u>240,246</u>	<u>274,691</u>
Total net assets		
Total liabilities and net assets	<u>\$ 259,015</u>	<u>\$ 288,726</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, 2022

(in thousands of dollars)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Contributions:			
Corporate, foundation and individual giving	\$ 44,683	\$ 13,264	\$ 57,947
Direct response	50,974	7,932	58,906
United way and CFC	320	-	320
Contributed materials, facilities and services	58,712	-	58,712
Grants	24,390	-	24,390
USO center revenue	413	-	413
Investment return, net	(360)	(218)	(578)
Other income	294	-	294
Net assets released from restrictions	21,428	(21,428)	-
	<u>200,854</u>	<u>(450)</u>	<u>200,404</u>
Total operating revenue, gains, and other support			
Program services expense			
USO centers	76,912	-	76,912
Transition programs	5,283	-	5,283
Military families and expeditionary programs	6,964	-	6,964
Contributed materials, facilities and services	59,758	-	59,758
Entertainment	3,236	-	3,236
Communications and public awareness outreach	13,790	-	13,790
	<u>165,943</u>	<u>-</u>	<u>165,943</u>
Total program services expense			
Supporting services expense			
Fundraising	33,386	-	33,386
Management and general	14,583	-	14,583
	<u>47,969</u>	<u>-</u>	<u>47,969</u>
Total supporting services expense			
Total operating expenses	<u>213,912</u>	<u>-</u>	<u>213,912</u>
Operating expenses in excess of operating revenue, before nonoperating	(13,058)	(450)	(13,508)
Nonoperating:			
Endowment investment return, net	(11,563)	(9,374)	(20,937)
	<u>(11,563)</u>	<u>(9,374)</u>	<u>(20,937)</u>
Total nonoperating activity			
CHANGE IN NET ASSETS	(24,621)	(9,824)	(34,445)
Net assets, beginning of year	176,307	98,384	274,691
Net assets, end of year	<u>\$ 151,686</u>	<u>\$ 88,560</u>	<u>\$ 240,246</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, 2021

(in thousands of dollars)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Contributions:			
Corporate, foundation and individual giving	\$ 32,550	\$ 24,456	\$ 57,006
Direct response	73,025	-	73,025
United way and CFC	361	-	361
Contributed materials, facilities and services	53,831	-	53,831
Grants	20,870	-	20,870
USO center revenue	342	-	342
Investment return, net	29	129	158
Other income	824	-	824
Net assets released from restrictions	25,343	(25,343)	-
	<u>207,175</u>	<u>(758)</u>	<u>206,417</u>
Total operating revenue, gains, and other support			
Program services expense			
USO centers	70,835	-	70,835
Transition programs	4,987	-	4,987
Military families and expeditionary programs	6,958	-	6,958
Contributed materials, facilities and services	53,670	-	53,670
Entertainment	3,155	-	3,155
Communications and public awareness outreach	17,194	-	17,194
	<u>156,799</u>	<u>-</u>	<u>156,799</u>
Total program services expense			
Supporting services expense			
Fundraising	34,955	-	34,955
Management and general	15,408	-	15,408
Contributed materials, facilities and services	48	-	48
	<u>50,411</u>	<u>-</u>	<u>50,411</u>
Total supporting services expense			
Total operating expenses	<u>207,210</u>	<u>-</u>	<u>207,210</u>
Operating expenses in excess of operating revenue, before nonoperating	(35)	(758)	(793)
Nonoperating:			
Contributions:			
Excess of assets acquired over liabilities assumed in the acquisition of other charitable organizations	18,298	3,367	21,665
Endowment investment return, net	6,891	6,976	13,867
	<u>25,189</u>	<u>10,343</u>	<u>35,532</u>
Total nonoperating activity			
CHANGE IN NET ASSETS	25,154	9,585	34,739
Net assets, beginning of year	<u>151,153</u>	<u>88,799</u>	<u>239,952</u>
Net assets, end of year	<u>\$ 176,307</u>	<u>\$ 98,384</u>	<u>\$ 274,691</u>

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

United Service Organizations, Inc.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2022
(in thousands of dollars)

	Program Services						Supporting Services		Total Operating Expenses
	USO Centers	Transition Programs	Military Families and Expeditionary Programs	Entertainment	Communications and Public Awareness Outreach	Total	Fund-Raising	Management and General	
Salaries	\$ 36,747	\$ 3,877	\$ 978	\$ 1,325	\$ 1,643	\$ 44,570	\$ 9,917	\$ 5,530	\$ 60,017
Payroll taxes	2,862	302	69	95	113	3,441	700	375	4,516
Retirement plan	2,455	272	71	88	118	3,004	699	370	4,073
Employee benefits	3,484	169	62	138	137	3,990	726	532	5,248
Total salaries and related expenses	45,548	4,620	1,180	1,646	2,011	55,005	12,042	6,807	73,854
Program supplies and services	25,894	985	4,696	9,380	-	40,955	-	-	40,955
Office expenses	2,989	22	-	1	4	3,016	126	118	3,260
Information technology	3,825	178	46	39	65	4,153	792	693	5,638
Printing and production	178	30	-	491	5,143	5,842	9,957	2,914	18,713
Marketing and promotion	52	2	-	34	3,275	3,363	2,247	-	5,610
Professional fees	2,351	107	139	285	2,294	5,176	3,667	1,627	10,470
Subscriptions, dues, and staff training	275	7	-	18	43	343	120	161	624
Travel	2,401	64	19	457	112	3,053	526	166	3,745
General insurance	490	8	12	66	35	611	139	74	824
Occupancy	33,070	8	255	81	129	33,543	528	359	34,430
Rental and maintenance of equipment	1,019	4	1	1	2	1,027	9	36	1,072
Postage and shipping	508	8	1,080	6	2,507	4,109	959	1,269	6,337
Meetings, conferences and events	369	-	-	15	117	501	1,110	125	1,736
Depreciation and amortization	4,891	26	12	21	38	4,988	173	104	5,265
Other expenses	225	-	-	33	-	258	991	130	1,379
Functional expenses, gross	124,085	6,069	7,440	12,574	15,775	165,943	33,386	14,583	213,912
Note: In-kind expenses included in expenses listed above	(47,173)	(786)	(476)	(9,338)	(1,985)	(59,758)	-	-	(59,758)
Functional expenses, net	\$ 76,912	\$ 5,283	\$ 6,964	\$ 3,236	\$ 13,790	\$ 106,185	\$ 33,386	\$ 14,583	\$ 154,154

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

United Service Organizations, Inc.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2021
(in thousands of dollars)

	Program Services						Supporting Services		Total Operating Expenses
	USO Centers	Transition Programs	Military Families and Expeditionary Programs	Entertainment	Communications and Public Awareness Outreach	Total	Fund-Raising	Management and General	
Salaries	\$ 33,537	\$ 3,617	\$ 1,043	\$ 1,159	\$ 1,894	\$ 41,250	\$ 10,157	\$ 5,589	\$ 56,996
Payroll taxes	2,682	273	75	82	135	3,247	722	419	4,388
Retirement plan	2,512	284	83	86	152	3,117	807	466	4,390
Employee benefits	3,210	161	65	133	148	3,717	776	545	5,038
Total salaries and related expenses	41,941	4,335	1,266	1,460	2,329	51,331	12,462	7,019	70,812
Program supplies and services	24,140	479	5,393	11,698	-	41,710	-	-	41,710
Office expenses	2,911	25	-	7	5	2,948	170	401	3,519
Information technology	3,146	185	53	33	64	3,481	541	594	4,616
Printing and production	193	38	-	528	6,229	6,988	10,387	3,152	20,527
Marketing and promotion	44	14	-	18	3,048	3,124	4,092	-	7,216
Awards and grants	1,430	-	-	-	-	1,430	-	-	1,430
Professional fees	1,106	113	50	633	1,572	3,474	3,118	1,354	7,946
Subscriptions, dues, and staff training	314	6	-	24	47	391	128	206	725
Travel	1,731	51	16	130	42	1,970	192	91	2,253
General insurance	436	8	13	37	33	527	88	66	681
Occupancy	27,825	11	204	71	137	28,248	447	374	29,069
Rental and maintenance of equipment	964	2	1	1	2	970	8	47	1,025
Postage and shipping	702	8	1,185	3	3,682	5,580	1,079	1,637	8,296
Meetings, conferences and events	24	-	-	7	66	97	1,119	73	1,289
Depreciation and amortization	4,138	27	26	29	62	4,282	246	129	4,657
Other expenses	191	-	-	57	-	248	893	298	1,439
Functional expenses, gross	111,236	5,302	8,207	14,736	17,318	156,799	34,970	15,441	207,210
Note: In-kind expenses included in expenses listed above	(40,401)	(315)	(1,249)	(11,581)	(124)	(53,670)	(15)	(33)	(53,718)
Functional expenses, net	\$ 70,835	\$ 4,987	\$ 6,958	\$ 3,155	\$ 17,194	\$ 103,129	\$ 34,955	\$ 15,408	\$ 153,492

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

United Service Organizations, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,
(in thousands of dollars)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (34,445)	\$ 34,739
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,265	4,657
Contributed investments	(644)	(950)
Excess of assets acquired over liabilities assumed in the donation of other charitable organizations	-	(21,665)
Change in discount and allowance on contributions and other receivable, net	830	(105)
Change in allowance for inventory obsolescence	(13)	-
Realized/unrealized loss (gain) on investments	24,381	(11,320)
Contributions restricted for endowment	(67)	(50)
Revenue from contributed inventory, equipment and vehicles	(1,163)	(1,209)
Change in value of beneficial interest in assets held by others	60	(26)
Contributed inventory used	1,475	1,569
Loss (gain) on disposal of fixed assets	35	(14)
Forgiveness of PPP loan	-	(562)
Changes in assets and liabilities:		
Contributions receivable	(6,734)	3,118
Grants and other receivables	(381)	(811)
Prepaid expenses and other assets	(918)	(79)
Inventory	(7)	794
Right of use asset	1,919	-
Accounts payable and accrued expenses	(1,799)	(841)
Deferred rent and lease liability	(2,304)	(129)
	<u>(14,510)</u>	<u>7,116</u>
Net cash (used in) provided by operating activities		
Cash flows from financing activities:		
Contributions restricted for endowment	67	50
Payment of PPP loan payable	-	(19)
	<u>67</u>	<u>31</u>
Net cash provided by financing activities		
Cash flows from investing activities:		
Cash received in acquisition of other charitable organizations	-	15,306
Purchase of fixed assets	(4,453)	(6,239)
Proceeds from sale of fixed assets	18	47
Purchase of investments	(170,212)	(127,666)
Sales of investments	169,565	120,748
	<u>(5,082)</u>	<u>2,196</u>
Net cash (used in) provided by investing activities		
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(19,525)</u>	<u>9,343</u>
Cash and cash equivalents, beginning of year	<u>37,311</u>	<u>27,968</u>
Cash and cash equivalents, end of year	<u>\$ 17,786</u>	<u>\$ 37,311</u>

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

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021
(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. Since 1941, the USO has been the nation's leading organization to serve those 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 those 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 USO and the USO Foundation (Foundation). The Foundation was incorporated as a supporting organization to carry out and support the general charitable purposes of the USO. All intercompany accounts and transactions have been eliminated.

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 cash and highly liquid financial investments with original maturities of three months or less which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Promises to Give

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 statement 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.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

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. As of December 31, 2022 and 2021, the USO did not have any unconditional promises to give product inventory.

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. Management considers other receivables to be fully collectible, therefore no allowance is recorded.

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.

Beneficial Interest in Assets Held by Others

During 2020, as part of merger agreements with two chartered centers, the USO recognized the fair value of a beneficial interest in assets held by two community foundations. These community foundations were established by the chartered centers to hold endowments and named the associated chartered center as beneficiary upon establishment of the fund. The community foundations were granted variance power allowing the community foundation to modify any condition or restriction on its distributions for any specific charitable purpose or to any specified organization if, in the sole judgment of the community foundation's board of directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The endowments are held and invested by the community foundation for the USO's benefit and the associated beneficial interest in the assets of the foundations are reported at fair value in the consolidated statements of financial position, with distributions and changes in fair value recognized in the consolidated statements of activities.

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 is reported in the consolidated statements of activities and changes in net assets and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

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.

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, 2022 and 2021.

Investments with values that are based on quoted market prices in active markets classified within Level 1 include active listed equities, mutual funds, actively traded corporate and international bonds, and government obligations. 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. As of December 31, 2022 and 2021, the USO did not hold any corporate bonds, international bonds or government obligations not traded in active markets.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

The fair values of beneficial interests in charitable and perpetual trusts are determined by the USO using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets and are based on the fair values of trust investments as reported by the trustees. The fair value of beneficial interest in assets held by the community foundation is based on the fair value of fund investments as reported by the community foundation. These are considered to be Level 3 measurements.

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 \$5 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation 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 and changes in net assets. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed when incurred.

Leases

USO determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the consolidated statements of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. USO does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Lease payments on short-term leases are reported as lease expense on a straight-line basis over the lease term.

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 (Board) 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.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

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 on endowment investments and contribution revenue related to the excess of assets acquired over liabilities assumed in the acquisition of other charitable organizations as nonoperating in the consolidated statements of activities and changes in net assets.

Revenue Recognition

Contributions

The USO recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met,

Consequently, at December 31, 2022, contributions excluding those associated with a federal grant award approximating \$251 have not been recognized in the accompanying consolidated statement of activities and changes in net assets because the condition(s) on which they depend has not yet been met. Of the total conditional contributions, \$251 depend on raising additional contributions before December 31, 2023 that will be matched dollar-for-dollar.

Grant Revenue

The USO recognizes government and private contracts and grants as either contributions or exchange transaction revenues, depending on whether the transaction is reciprocal or nonreciprocal. For contributions, revenue is recognized when a contribution becomes unconditional. Typically, contract and grant agreements contain a right of return or right of release from the respective obligation provision on the part of the grantor and the USO has limited discretion over how funds transferred should be spent. As such, the USO recognizes revenue for these conditional contributions when the related barrier to entitlement has been overcome.

Amounts reported as grants receivable, within the accompanying consolidated statements of financial position, represent expenses incurred in advance of the receipt of funds. Funds received in advance of conditions being met are reported as deferred revenue within the accompanying consolidated statements of financial position. As of December 31, 2022 and 2021, the USO had no deferred revenue to report from funds received in advance of conditions being met.

Billed and unbilled receivables of 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. Federal grant awards 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, 2022, the USO has a conditional contribution associated with a federal grant award totaling \$16,499 which will be recognized as revenue as grant expenditures are incurred, meeting the conditions of the grant award.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

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.

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.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement 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. 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, headcount, or other measure of utilization such as square footage of office space.

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, 2022, balances held in accounts in excess of the FDIC insurable limit were \$17,297. Amounts in foreign bank accounts total \$639 and \$291 at December 31, 2022 and 2021, 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. The USO's investment policies also stipulate appropriate diversification of investment balances.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

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 organization 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.

Accounting principles generally accepted in the United States of America (U.S. GAAP) requires that an income tax position be recognized or derecognized based on a more-likely-than-not threshold. Each organization 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. USO has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP 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.

Recently Adopted Accounting Pronouncements

In 2022, the USO adopted Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), which requires lessees to recognize leases on the consolidated statement of financial position and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statements of financial position for most leases with a term longer than 12 months. Leases have been classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statements of activities and changes in net assets. The USO recognized right-of-use assets of \$9,835 and lease liabilities totaling \$11,250 in its consolidated statement of financial position as of January 1, 2022. The adoption did not result in a significant effect on amounts reported in the consolidated statement of activities for the year ended December 31, 2022.

In 2022, the USO also adopted ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*, which allows lessees that are not public business entities to apply the existing risk-free discount rate expedient by class of underlying asset rather than to all leases. For entities that have not adopted ASC 842 as of November 11, 2021, the amendments in ASU 2021-09 are subject to the same effective date and transition guidance that applies to ASC 842.

In 2022, the USO adopted ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets and requires additional disclosures related to

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

contributed nonfinancial assets. This ASU has been applied on a retrospective basis in the accompanying consolidated financial statements.

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, the following financial assets could readily be made available within one year of the consolidated statement of financial position to meet general expenditures:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 17,786	\$ 37,311
Contribution, grant and other receivables	29,328	23,965
Operating investments	<u>24,695</u>	<u>26,385</u>
 Financial assets available to meet general expenditures over the next 12 months	 <u>\$ 71,809</u>	 <u>\$ 87,661</u>

In addition to the above, the Board has designated a portion of its unrestricted resources for an endowment. As of December 31, 2022 and 2021, the board-designated value is \$81,558 and \$91,707, respectively. These funds are invested for long-term appreciation but remain available and may be spent at the discretion of the Board.

NOTE C - CONTRIBUTIONS RECEIVABLE, NET

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

	<u>2022</u>	<u>2021</u>
Less than one year	\$ 21,850	\$ 16,422
One to five years	6,505	6,229
More than five years	<u>1,693</u>	<u>663</u>
	30,048	23,314
Less:		
Discount to net present value at rates ranging from 1% to 5%	(1,400)	(593)
Allowance for uncollectible contributions receivable	<u>(618)</u>	<u>(595)</u>
	<u>\$ 28,030</u>	<u>\$ 22,126</u>

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

NOTE D - INVESTMENTS

At December 31, investments consist of the following:

	<u>2022</u>	<u>2021</u>
Corporate and commercial obligations	\$ 31,137	\$ 38,373
U.S. Treasury securities and other government obligations	18,960	25,075
Corporate equity securities	19,429	25,078
Mutual funds	88,891	89,987
Money market holdings	7,708	12,246
Alternative investments	3,842	2,299
	<u>\$ 169,967</u>	<u>\$ 193,058</u>

Investments have been classified as operating and endowment investments in the consolidated statements of financial position as follows:

	<u>2022</u>	<u>2021</u>
Operating investments	\$ 24,695	\$ 26,385
Endowment Investments	145,272	166,673
	<u>\$ 169,967</u>	<u>\$ 193,058</u>

Investments, excluding alternative investments, were recorded at fair value as of December 31, 2022 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	\$ 31,137	\$ -	\$ 31,137	\$ -	\$ -
U.S. Treasury securities and other government obligations	18,960	-	18,960	-	-
Corporate equity securities	19,429	-	19,429	-	-
Mutual funds	88,891	-	88,891	-	-
Money market holdings	7,708	-	7,708	-	-
Alternative investments	3,842	3,842	-	-	-
	<u>169,967</u>	<u>3,842</u>	<u>166,125</u>	<u>-</u>	<u>-</u>
Beneficial interests in assets held by others	243	-	-	-	243
	<u>\$ 170,210</u>	<u>\$ 3,842</u>	<u>\$ 166,125</u>	<u>\$ -</u>	<u>\$ 243</u>

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

Investments, excluding alternative investments, were recorded at fair value as of December 31, 2021 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	\$ 38,373	\$ -	\$ 38,373	\$ -	\$ -
U.S. Treasury securities and other government obligations	25,075	-	25,075	-	-
Corporate equity securities	25,078	-	25,078	-	-
Mutual funds	89,987	-	89,987	-	-
Money market holdings	12,246	-	12,246	-	-
Alternative investments	<u>2,299</u>	<u>2,299</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>193,058</u>	<u>2,299</u>	<u>190,759</u>	<u>-</u>	<u>-</u>
Beneficial interests in assets held by others	<u>303</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>303</u>
	<u>\$ 193,361</u>	<u>\$ 2,299</u>	<u>\$ 190,759</u>	<u>\$ -</u>	<u>\$ 303</u>

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 303	\$ 277
Contributions	-	-
Investment return, net	<u>(60)</u>	<u>26</u>
	<u>\$ 243</u>	<u>\$ 303</u>

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

The following table details certain attributes pertaining to the investments reported at fair value using a NAV, or its equivalent, as of December 31, 2022 and 2021. 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. As of December, 31 2022 and 2021, no redemption restrictions existed on these investments.

	Fair Value at December 31, 2022	Fair Value at December 31, 2021	Unfunded Commitments	Expected Liquidation Term	Redemption Terms
Limited partnerships	\$ 3,075	\$ 1,523	\$ 1,690	Unknown	Upon liquidation
					Weekly on Wednesday, except first week of the month, when it's the 1st business day, upon 3 days' prior notice
Bond fund	767	776	None	Unknown	
	<u>\$ 3,842</u>	<u>\$ 2,299</u>			

NOTE E - FIXED ASSETS

At December 31, fixed assets consist of the following:

	2022	2021
Furniture, fixtures, and equipment	\$ 17,073	\$ 15,839
Leasehold improvements	33,570	31,158
Internally developed software	802	1,168
Land	296	296
	51,741	48,461
Less: accumulated depreciation and amortization	<u>(30,337)</u>	<u>(26,191)</u>
	<u>\$ 21,404</u>	<u>\$ 22,270</u>

For the years ended December 31, 2022 and 2021, depreciation and amortization expense totaled \$5,265 and \$4,657, respectively.

NOTE F - LOANS PAYABLE

During the year ended December 31, 2020, the USO, Inc. acquired four chartered centers who received loans pursuant to the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The loans were uncollateralized and fully guaranteed by the federal government. The loans matured in May 2022 and bore interest at a rate of 1% per annum. Under the program terms, the loan and accrued interest were expected to be forgiven and recognized as grant revenue as the loan proceeds were used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent and utilities) incurred following the receipt of the loan. During the year

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

ending December 31, 2021, all loans were forgiven and the USO recognized revenue of \$562. There was no loan payable activity during the year ending December 31, 2022.

NOTE G - COMMITMENTS AND CONTINGENCIES

Operating Leases

The USO evaluated current contracts to determine which met the criteria of a lease. The ROU assets represent the USO's right to use underlying assets for the lease term, and the lease liabilities represent the USO's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. The USO has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate lease liabilities as of December 31, 2022 was 1.4%.

The USO's operating leases consist primarily of real estate leases for office space and copier equipment for its centers.

For the year ended December 31, 2022, total operating lease cost was \$2,116, and total short-term lease cost was approximately \$69. As of December 31, 2022, the weighted-average remaining lease term for the USO's operating leases was approximately 4 years.

The following summarizes the supplemental cash flow information for the year ended December 31:

	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash outlays from operating leases	\$ 2,165
Right-of-use assets obtained in exchange for lease liabilities	
Operating leases	\$ 281

Future minimum payments under operating leases with terms of one year or more as of December 31, 2022 are as follows:

<u>Years Ending December 31,</u>	
2023	\$ 2,298
2024	2,246
2025	2,276
2026	2,270
2027	495
2028 and thereafter	<u>225</u>
	9,810
Less: discount	<u>(304)</u>
	<u>\$ 9,506</u>

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

Total rent expense under FASB ASC 840 (pre-adoption of the new lease standards) for operating leases totaled \$2,142 for the year ended December 31, 2021 (excluding related in-kind support). Future minimum payments under those operating leases as of December 31, 2021 were as follows:

<u>Years Ending December 31,</u>		
2022	\$	2,298
2023		2,287
2024		2,231
2025		2,238
2026		2,225
2027 and thereafter		<u>808</u>
	\$	<u><u>12,087</u></u>

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 H - 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, as follows:

	<u>2022</u>	<u>2021</u>
USO centers and programs	\$ 12,679	\$ 13,933
Transition programs	2,556	4,987
Passage of time	4,489	6,406
Appropriation of endowment earnings	<u>1,704</u>	<u>17</u>
	\$ <u><u>21,428</u></u>	\$ <u><u>25,343</u></u>

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

At December 31, net assets consisted of the following:

	<u>2022</u>	<u>2021</u>
Without donor restrictions		
Operating	\$ 70,128	\$ 84,600
Board-designated endowment	<u>81,558</u>	<u>91,707</u>
Total without donor restrictions	<u>151,686</u>	<u>176,307</u>
With donor restrictions, subject to expenditure for specified purpose or passage of time		
USO centers and programs	11,925	13,469
Transition programs	445	874
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	<u>11,867</u>	<u>8,426</u>
Total with donor restrictions, subject to expenditure for specified purpose or passage of time	<u>24,237</u>	<u>22,769</u>
Endowments subject to USO endowment spending policy and appropriation:		
Spirit of Hope endowment	63,027	74,093
Other endowments	909	1,026
Promises to give, restricted to endowment	<u>144</u>	<u>193</u>
Total endowments	<u>64,080</u>	<u>75,312</u>
Beneficial interest in assets held by community foundation	243	303
Total net assets with donor restrictions	<u>88,560</u>	<u>98,384</u>
Total net assets	<u>\$ 240,246</u>	<u>\$ 274,691</u>

NOTE I - 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:

	<u>2022</u>	<u>2021</u>
Programs	\$ 8,654	\$ 12,332
Management and general	4,262	4,837
Fundraising	<u>9,519</u>	<u>12,764</u>
	<u>\$ 22,435</u>	<u>\$ 29,933</u>

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

NOTE J - CONTRIBUTED MATERIALS, FACILITIES AND SERVICES

Volunteer Services

The USO receives donated services from unpaid volunteers assisting in programmatic delivery. Donated volunteer services have not been recognized as revenue in the financial statements as they do not meet the requirements for recognition.

Center Facilities

The USO receives rent-free or discounted space to operate its USO centers across the world. The fair value of this space is measured using published cost per square footage for similar space.

Celebrity Entertainment

The USO receives contributions of services from various musical performers, actors, influencers, gamers and television and sports personalities in the form of mission delivery engagements performances and interactions at USO centers, military bases, and virtually. The celebrity entertainment values are measured based on published appearance fees for the celebrity or a similar celebrity, similar in genre, talent, and fame level. 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.

Public Service Announcements and Advertising

The USO produces and distributes public service announcements (PSAs) to increase the American public's awareness and understanding of the needs of service members and their families while also making service members and their families aware of the free programs and services available to them through the USO. These PSAs are broadcasted or delivered nationwide, at no charge to the USO. These PSAs are recognized as in-kind contributions at fair value, with a corresponding PSA expense, at the time they are delivered to the public. The USO contracts with independent outside agencies to track and estimate the fair value of each PSA based on current rates for similar broadcasts at a similar date, time, and market in which it is displayed.

The USO receives free advertising through billboard advertisements that serve as platforms to market and brand its mission. These donated advertisements are recognized as in-kind contributions at fair value, with a corresponding expense, at the time they are delivered to the public. The valuation of these advertisements is provided by the service provider and is verified by the USO based on the date, time, and market in which each service is rendered.

Materials and Other

Contributed supplies, hotel and airlines miles, gift cards, vehicle leases, subscriptions and tickets to entertainment and sporting events are provided to the USO to help defray the costs of those goods and services that would otherwise have been purchased.

Contributed supplies are valued using estimated U.S. wholesale prices of identical or similar products using published prices or the USO's current purchase data considering the condition and utility for use at the time of the contribution. Contributed hotel and airlines miles, vehicle leases, and subscriptions are valued based on current rates or prices for similar services or leases. Contributed gift cards are recognized at stated purchasing value of gift card.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

The USO's consolidated financial statements include the following in-kind contribution revenue and support, and associated expense:

	2022	2021
Center facilities	\$ 32,010	\$ 26,946
Celebrity entertainment	9,313	11,580
Public service announcements and advertising	1,856	116
Materials and other	15,533	15,189
	\$ 58,712	\$ 53,831

There were no donor-imposed restrictions associated with the donated services and assets during the years ending December 31, 2022 and 2021.

NOTE K - 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% over a period of five years; whereas safe harbor non-elective contributions vest 100% over a period of two years. Additionally, in 2022, the USO contributed a discretionary employer matching contribution equal to 100% of the employee's salary deferral contributions, up to a maximum of 5% of the employee's compensation.

The USO's policy is to fund retirement plan costs as accrued. Retirement plan expense was \$4,073 and \$4,390 for the years ended December 31, 2022 and 2021, respectively.

NOTE L - 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 to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board 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 donor-restricted endowments (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The accumulations to the donor restricted endowment fund are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by DC-UPMIFA.

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

In February 2022, the Board adopted a spending policy establishing a spending rate of 2.5% applied to the moving average of the market value of the total Spirit of Hope Endowment less those assets required to be held in perpetuity using the three preceding September month-end market values. Additionally, the Board may provide for distributions exceeding the spending rate to accommodate the operating needs and / or special funding requests.

In addition, USO has adopted a spending policy establishing a spending rate of up to 2.5% on its 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 withdrawals from the fund. The USO's ability to tolerate risk and volatility should be consistent with that of a conservative growth portfolio, with investments made in companies that demonstrate consistent growth over time. Asset allocations are developed in accordance with this long-term, conservative growth strategy.

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

<u>2022</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment	\$ 81,558	\$ -	\$ 81,558
Donor-restricted endowment:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	26,395	26,395
Accumulated net investment return	-	37,541	37,541
	<u>\$ 81,558</u>	<u>\$ 63,936</u>	<u>\$ 145,494</u>
<u>2022</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 91,707	\$ 75,119	\$ 166,826
Investment loss, net	(11,563)	(9,546)	(21,109)
Additions	2,740	67	2,807
Appropriation of endowment net assets pursuant to spend-rate policy	<u>(1,326)</u>	<u>(1,704)</u>	<u>(3,030)</u>
Endowment net assets, end of year	<u>\$ 81,558</u>	<u>\$ 63,936</u>	<u>\$ 145,494</u>

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

<u>2021</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment	\$ 91,707	\$ -	\$ 91,707
Donor-restricted endowment:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	26,328	26,328
Accumulated net investment return	-	48,791	48,791
	<u>\$ 91,707</u>	<u>\$ 75,119</u>	<u>\$ 166,826</u>
<u>2021</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 81,841	\$ 66,778	\$ 148,619
Investment income, net	6,906	7,063	13,969
Additions	3,794	1,295	5,089
Appropriation of endowment net assets pursuant to spend-rate policy	(834)	(17)	(851)
	<u>\$ 91,707</u>	<u>\$ 75,119</u>	<u>\$ 166,826</u>
Endowment net assets, end of year			

NOTE M - ACQUISITION OF CHARTERED CENTERS

Prior to 2022, the USO oversaw the operations and activities for chartered USO affiliates. These chartered USO affiliates were financially autonomous and were each governed by separate boards that were independent of the Board. During the year ended December 31, 2021, the USO executed merger agreements with the remaining six chartered USO affiliates accounted for as an acquisition.

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 consolidated statements of activities and changes in net assets on the effective date of the acquisition as follows:

	<u>2021</u>
Cash	\$ 10,579
Contributions receivable	3,760
Investments	4,507
Fixed assets	3,253
Other assets (prepaid expenses, security deposit, etc.)	384
Liabilities assumed	<u>(818)</u>
Excess of assets acquired over liabilities assumed in acquisition of USO Chartered Centers	<u>\$ 21,665</u>

United Service Organizations, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021
(in thousands of dollars)

NOTE N - SUBSEQUENT EVENTS

The USO evaluated its December 31, 2022 consolidated financial statements for subsequent events through May 30, 2023, the date the consolidated financial statements were available to be issued and concluded that no other additional disclosures are required. concluded that no other additional disclosures are required.