



Grant Thornton

**Consolidated Financial Statements and Report of
Independent Certified Public Accountants**

United Service Organizations, Inc.

December 31, 2011

United Service Organizations, Inc.

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Report of Independent Certified Public Accountants

Board of Governors
United Service Organizations, Inc.

We have audited the accompanying consolidated statement of financial position of United Service Organizations, Inc. (USO) as of December 31, 2011, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of USO's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from USO's 2010 consolidated financial statements and, in our report dated April 11, 2011, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of USO's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012 on our consideration of USO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of USO's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidated schedule of functional expenses for the year ended December 31, 2011 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



McLean, Virginia
March 30, 2012

United Service Organizations, Inc.

Consolidated Statements of Financial Position

December 31, 2011 and 2010

Assets

Cash and cash equivalents	\$ 17,470,401	\$ 11,517,944
Contributions receivable, net	12,956,876	8,378,463
Grants receivable	1,304,397	4,080,769
Other receivables	618,026	411,324
Prepaid expenses and other assets	1,494,131	854,101
Inventory	5,943,774	2,013,246
Investments	65,275,842	65,774,602
Fixed assets, net	10,187,257	10,397,747

Total Assets \$ 115,250,704 \$ 103,428,196

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 7,579,367	\$ 12,001,624
Deferred rent	383,950	497,605

Total Liabilities 7,963,317 12,499,229

Net Assets

Unrestricted		
Operating	20,423,626	16,230,194
Board-designated		
Spirit of Hope	29,628,693	29,714,630

Total unrestricted 50,052,319 45,944,824

Temporarily restricted

Desert Storm Education Fund	575,959	627,570
Spirit of Hope	9,448,551	9,550,130
Time Restriction	—	44,031
Ongoing Program Activities	8,670,365	4,661,319
Capital Projects	12,678,608	4,237,665
USO Councils and Others	263,662	265,505

Total temporarily restricted 31,637,145 19,386,220

Permanently restricted

Camp Casey	25,000	25,000
Spirit of Hope	25,572,923	25,572,923

Total permanently restricted 25,597,923 25,597,923

Total Net Assets 107,287,387 90,928,967

Total Liabilities and Net Assets \$ 115,250,704 \$ 103,428,196

The accompanying notes are an integral part of these statements.

United Service Organizations, Inc.

Consolidated Statement of Activities and Changes in Net Assets

Year ended December 31, 2011 (with summarized comparative totals for the year ended December 31, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and Support					
Contributions:					
Corporate, foundation and individual giving	\$ 14,894,328	\$ 14,607,041	\$ —	\$ 29,501,369	\$ 20,645,699
Direct response	59,123,549	2,440,470	—	61,564,019	63,233,798
United way and CFC	2,106,253	—	—	2,106,253	2,128,898
Contributed materials, facilities and services	225,245,685	6,340,088	—	231,585,773	208,966,468
Grants	18,250,129	—	—	18,250,129	23,788,840
USO center revenue	7,834,849	—	—	7,834,849	7,339,783
Investment (loss) income	(81,013)	(97,090)	—	(178,103)	8,036,569
Other (loss) income	(237,349)	—	—	(237,349)	248,287
Total Revenue and Support	327,136,431	23,290,509	—	350,426,940	334,388,342
Net Assets Released from Restrictions	11,039,584	(11,039,584)	—	—	—
Total Revenue and Other Support	338,176,015	12,250,925	—	350,426,940	334,388,342
Operating Expenses					
Program services:					
USO centers	33,642,686	—	—	33,642,686	34,648,417
Programs	13,681,548	—	—	13,681,548	17,125,486
Contributed materials, facilities and services	228,488,314	—	—	228,488,314	209,731,791
Entertainment	10,232,539	—	—	10,232,539	11,302,892
Communications and public awareness outreach	14,411,635	—	—	14,411,635	17,744,025
Total program expenses	300,456,722	—	—	300,456,722	290,552,611
Supporting Services					
Fundraising	20,098,767	—	—	20,098,767	22,831,954
Management and general	13,513,031	—	—	13,513,031	12,874,786
Total Supporting Services	33,611,798	—	—	33,611,798	35,706,740
Total Operating Expenses	334,068,520	—	—	334,068,520	326,259,351
Changes in Net Assets	4,107,495	12,250,925	—	16,358,420	8,128,991
Net Assets, beginning of year	45,944,824	19,386,220	25,597,923	90,928,967	82,799,976
Net Assets, end of year	\$ 50,052,319	\$ 31,637,145	\$ 25,597,923	\$ 107,287,387	\$ 90,928,967

The accompanying notes are an integral part of this statement.

United Service Organizations, Inc.

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2010

Cash Flows from Operating Activities			
Change in net assets	\$	16,358,420	\$ 8,128,991
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		2,602,319	2,329,017
Contributed investments		(896,993)	(707,696)
Change in discount and allowance on contributions receivable, net		213,902	57,189
Realized/unrealized loss (gain) on investments		1,923,933	(6,545,534)
Revenue from contributed inventory		(7,070,076)	(2,680,324)
Contributed inventory used		3,972,617	3,445,647
Loss (gain) on disposal of fixed assets		356,785	(108,176)
Changes in assets and liabilities			
Contributions receivable, net		(3,946,887)	(3,413,145)
Grants and other receivables		2,569,670	1,473,407
Prepaid expenses and other assets		(640,030)	567,087
Inventory		(1,678,497)	(261,456)
Accounts payable and accrued expenses		(4,422,257)	3,473,164
Deferred rent		(113,655)	(91,238)
Net Cash Provided by Operating Activities		9,229,251	5,666,933
Cash Flows from Investing Activities			
Purchase of fixed assets		(2,750,770)	(5,489,009)
Proceeds from the sale of fixed assets		2,156	113,491
Purchase of investments		(26,551,501)	(48,075,801)
Sales of investments		26,023,321	47,079,071
Net Cash Used in Investing Activities		(3,276,794)	(6,372,248)
Net Increase (Decrease) in Cash and Cash Equivalents		5,952,457	(705,315)
Cash and Cash Equivalents, beginning of year		11,517,944	12,223,259
Cash and Cash Equivalents, end of year	\$	17,470,401	\$ 11,517,944

The accompanying notes are an integral part of these statements.

United Service Organizations, Inc.

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

NOTE A^{3/4}ORGANIZATION

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

NOTE B^{3/4}SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements reflect the accounts of USO Arlington, the USO Foundation, and its domestic and overseas operating centers. All intercompany accounts and transactions have been eliminated.

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

Use of Estimates

The presentation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE B³/₄SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES³/₄Continued

Net Assets

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

Unrestricted Funds:

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

Temporarily Restricted Funds:

- *Desert Storm Education Fund*—Contributions restricted to provide for academic or vocational scholarships to surviving family members of casualties of Desert Shield/Storm operations.
- *Time Restriction*—Certain contributions receivable result from multi-year pledges, and accordingly the amounts due in future years (at their discounted value) have been recorded as temporarily restricted until the year when the pledge becomes due.
- *Ongoing Program Activities*—Contributions restricted for various worldwide USO programs, such as Operation USO Care Package, USO Operation Phone Home, USO2GO, USO Warriors and Family Care, and United Through Reading's Military Program.
- *Capital Projects*—Contributions restricted for the establishment, expansion or capital improvements of various USO Centers worldwide, including the USO Warrior and Family Centers.
- *USO Councils and Others*—Donor funds restricted for use in certain regional localities.
- *Spirit of Hope*—Earnings on donor-restricted endowment funds classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE B^{3/4}SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES^{3/4}Continued

Permanently Restricted Funds:

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

Foreign Currency

USO operates Centers at major 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

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

Investments

Investments in publicly traded debt and equity securities are recorded at fair value generally determined on the basis of quoted market values. Investment income is presented net of investment advisory/management fees in the accompanying consolidated statement of activities.

Inventory

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

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

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE B^{3/4}SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES^{3/4}Continued

Fixed Assets

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

Contributed Materials and Facilities

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

Contributed Services

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 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. 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 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 USO's programs. No amounts have been reflected for these types of donated services, as they do not meet the criteria outlined above.

Contributions

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

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE B³/₄SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES³/₄Continued

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using credit-adjusted interest rates applicable to the years in which the promises are received. The discount rates used in 2011 and 2010 were 1.6 percent and 1.8 percent, respectively. Amortization of the discounts is included in contribution revenue in the accompanying consolidated statement of activities. Allowances are recorded for estimated uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Grant Revenue

Grant revenue on cost-reimbursement grants or contracts is recognized when program expenditures have been incurred. Billed and unbilled receivables of the government grants are expected to be collected within one year and are recorded at net realizable value as grant receivables in the consolidated statement of financial position. Such grant programs are subject to independent audit under the Office of Management and Budget Circular A-133 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, USO's management believes that costs ultimately disallowed, if any, would not materially affect the consolidated financial position of USO.

USO Center Revenue

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

Concentration of Credit Risk

Financial instruments that potentially subject USO to a concentration of credit risk include cash deposits with commercial banks. USO's cash management policies limit its exposure to a concentration of credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Cash deposits may exceed the FDIC insurable limit of \$250,000 at times throughout the year due to anticipated large expenses under various projects. As of December 31, 2011, the amount in excess of the FDIC insurable limit was approximately \$17,450,000. Management does not consider this to be a significant credit risk. Amounts in foreign bank accounts total approximately \$1,000,000 at December 31, 2011.

Functional Allocation of Expenses

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

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE B^{3/4}SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES^{3/4}Continued

Income Taxes

USO is exempt from federal income tax under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in IRC Section 501(c)(3). However, income generated from activities unrelated to USO's exempt purpose is subject to tax under IRC Section 511. USO did not have any material unrelated business income tax liability for the years ended December 31, 2011 and 2010. Therefore, no tax liability has been provided in the accompanying consolidated financial statements.

US GAAP requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. USO does not believe its consolidated financial statements include any uncertain tax positions for the open tax years.

Prior Year Summarized Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with USO's consolidated financial statements for the year ended December 31, 2010, from which the summarized information was derived.

USO Foundation

USO Foundation (Foundation) was incorporated as a supporting organization on March 22, 2007 to carry out and support the general charitable purposes of USO. On January 20, 2010 and February 2, 2010, the funds constituting the corpus of the "Spirit of Hope Endowment," which amounted to \$47.2 million in aggregate, were transferred by USO Arlington to the Foundation. The Foundation's accounts are included in the consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the December 31, 2010 amounts to conform to the December 31, 2011 presentation. Such reclassifications did not change total assets, liabilities, revenues and expenses or changes in net assets reflected in the 2010 consolidated financial statements.

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE C^{3/4} CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net consist of the following unconditional promises to give as of December 31, 2011:

	Unrestricted	Temporarily Restricted	Total
Less than one year	\$ 7,343,365	\$ 3,028,356	\$ 10,371,721
One to five years	33,333	2,605,500	2,638,833
	7,376,698	5,633,856	13,010,554
Discount	(43)	(53,635)	(53,678)
	\$ 7,376,655	\$ 5,580,221	\$ 12,956,876

Contributions receivable, net consist of the following unconditional promises to give as of December 31, 2010:

	Unrestricted	Temporarily Restricted	Total
Less than one year	\$ 4,660,537	\$ 2,357,950	\$ 7,018,487
One to five years	45,000	1,370,000	1,415,000
	4,705,537	3,727,950	8,433,487
Discount	(969)	(54,055)	(55,024)
	\$ 4,704,568	\$ 3,673,895	\$ 8,378,463

An allowance for uncollectable accounts totaling \$217,413 and \$2,165 existed at December 31, 2011 and 2010, respectively.

Included in contributions receivable are unconditional promises to give product inventory that are expected to be received within three months or less and 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. 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.

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE D^{3/4} INVESTMENTS

At December 31, investments are recorded at fair value and consist of the following:

	2011	2010
Corporate and commercial obligations	\$ 8,341,771	\$ 7,817,584
U.S. Treasury securities	5,163,740	6,735,454
Corporate equity securities	46,694,675	46,841,359
Money market holdings	5,075,656	4,380,205
	\$ 65,275,842	\$ 65,774,602

USO has adopted guidance that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The guidance maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 – Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

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 the entity.

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE D^{3/4} INVESTMENTS—Continued

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 hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

Investments were recorded at fair value as of December 31, 2011 based on the following level of hierarchy:

	Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate and commercial obligations	\$ 8,341,771	\$ 6,306,240	\$ 2,035,531	\$ —
U.S. Treasury securities	5,163,740	5,163,740	—	—
Corporate equity securities	46,694,675	46,694,675	—	—
Money market holdings	5,075,656	5,075,656	—	—
	\$ 65,275,842	\$ 63,240,311	\$ 2,035,531	\$ —

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE D^{3/4} INVESTMENTS—Continued

Investments were recorded at fair value as of December 31, 2010 based on the following level of hierarchy:

	Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate and commercial obligations	\$ 7,817,584	\$ 7,148,078	\$ 669,506	\$ —
U.S. Treasury securities	6,735,454	6,399,679	335,775	—
Corporate equity securities	46,841,359	46,841,359	—	—
Money market holdings	4,380,205	4,380,205	—	—
	<u>\$ 65,774,602</u>	<u>\$ 64,769,321</u>	<u>\$ 1,005,281</u>	<u>\$ —</u>

The following schedule summarizes investment return:

	2011	2010
Interest and dividends	\$ 1,983,187	\$ 1,719,035
Net unrealized (losses) gains	(3,435,979)	4,992,427
Net realized gains	1,512,046	1,553,107
Less: investment expenses	(237,357)	(228,000)
	<u>\$ (178,103)</u>	<u>\$ 8,036,569</u>

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE E—COMMITMENTS AND CONTINGENCIES

The USO leases office space under long-term lease agreements which expire in 2014. The office leases provide for scheduled rent increases and increases in operating expenses and real estate taxes attributable to the leased property. As part of a lease agreement, USO received eight months of free rent on a portion of the space and reimbursement for certain leasehold improvements as lease incentives, which are recorded as deferred rent in the accompanying consolidated statement of financial position. Scheduled rent increases and these incentives are being recognized over the term of the lease on a straight-line basis. Future minimum payments under this operating lease and other equipment operating leases are as follows:

2012	\$	965,198
2013		977,787
2014		478,091
		<hr/>
	\$	2,421,076

For the years ended December 31, 2011 and 2010, total rental expense under all operating leases was \$988,823 and \$848,713, respectively (excluding related in-kind support).

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 USO's financial position, change in net assets, or cash flows.

On December 26, 2011, USO entered into a contract for approximately \$8 million with a construction company to serve as general contractor to USO in connection with the construction of a two story multi-use facility, serving United States Department of Defense ("DoD") service members ("Wounded Warriors"), their families and primary care givers, to include: healing gardens, outdoor fitness and recreation areas, as well as other associated site, mechanical and electrical work. This facility will be located within Ft. Belvoir in the Commonwealth of Virginia. The construction cost is being funded with donated dollars through a capital campaign. Once the facility is complete and certified for occupancy, USO will convey the building to the DoD Secretary of the Army, as per the terms of the proffer letter, which requires such conveyance.

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE F—FIXED ASSETS

At December 31, fixed assets consist of the following:

	2011	2010
Furniture, fixtures, and equipment	\$ 8,437,767	\$ 8,514,910
Leasehold improvements	8,736,211	7,548,010
Construction in progress	2,210,753	1,234,704
	<u>19,384,731</u>	<u>17,297,624</u>
Less: accumulated depreciation and amortization	(9,197,474)	(6,899,877)
	<u>\$ 10,187,257</u>	<u>\$ 10,397,747</u>

NOTE G—NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors or by the passage of time during the years ended December 31, 2011 and 2010, as follows:

	2011	2010
Desert Storm Education Fund	\$ 56,100	\$ 75,548
Time Restricted	44,031	85,000
Ongoing Program Activities	9,572,822	8,777,831
Capital Projects	1,366,631	1,416,581
	<u>\$ 11,039,584</u>	<u>\$ 10,354,960</u>

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE H—ALLOCATION OF JOINT COSTS

USO conducts direct response campaigns that include fund-raising appeals, as well as program and management and general components. The costs of conducting those joint activities were allocated as follows in 2011 and 2010:

	2011	2010
Programs	\$ 7,612,757	\$ 8,425,128
Management and general	5,998,674	5,614,160
Fundraising	14,202,326	17,268,360
	<u>\$ 27,813,757</u>	<u>\$ 31,307,648</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:

	2011	2010
Materials and facilities	\$ 19,821,777	\$ 15,997,490
Public Service Announcements	149,231,621	116,089,778
Celebrity entertainment	62,532,375	76,879,200
	<u>\$ 231,585,773</u>	<u>\$ 208,966,468</u>

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE J—RETIREMENT PLAN

In 2010, USO maintained a money purchase pension plan which provided for the purchase of annuity contracts for participants upon their retirement. USO contributed 7.8 percent of each covered employee's annual salary. Employees were 100 percent vested upon five years of service once eligible.

On January 1, 2011, the money purchase pension plan was converted to 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 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 2011, USO contributed a safe harbor non-elective contribution and a discretionary employer matching contribution equal to 4 percent and 5 percent, respectively, of each covered employee's annual salary.

USO's policy is to fund retirement plan costs as accrued. Retirement plan expense was \$1,629,611 and \$1,436,860 for the years ended December 31, 2011 and 2010, respectively.

NOTE K—ENDOWMENT

The Spirit of Hope endowment includes both donor-restricted endowment funds and funds designated by the Board of Governors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Governors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

During 2008, the District of Columbia enacted into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Management of USO has interpreted the District of Columbia law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, USO classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. As of December 31, 2011, there are no plans for the earnings of the endowment to be spent.

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

NOTE K—ENDOWMENT—Continued

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

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

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 9,448,551	\$ 25,597,923	\$ 35,046,474
Board-designated endowment funds	29,628,693	—	—	29,628,693
Total funds	\$ 29,628,693	\$ 9,448,551	\$ 25,597,923	\$ 64,675,167
2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 29,714,630	\$ 9,550,130	\$ 25,597,923	\$ 64,862,683
Investment return:				
Investment income	790,388	934,248	—	1,724,636
Net depreciation	(876,325)	(1,035,827)	—	(1,912,152)
Total investment return	(85,937)	(101,579)	—	(187,516)
Endowment net assets, end of year	\$ 29,628,693	\$ 9,448,551	\$ 25,597,923	\$ 64,675,167

United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

December 31, 2011 and 2010

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:

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 9,550,130	\$ 25,597,923	\$ 35,148,053
Board-designated endowment funds	29,714,630	—	—	29,714,630
Total funds	\$ 29,714,630	\$ 9,550,130	\$ 25,597,923	\$ 64,862,683

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 26,064,567	\$ 5,235,710	\$ 25,597,923	\$ 56,898,200
Investment return:				
Investment income	673,347	795,906	—	1,469,253
Net appreciation	2,976,716	3,518,514	—	6,495,230
Total investment return	3,650,063	4,314,420	—	7,964,483
Endowment net assets, end of year	\$ 29,714,630	\$ 9,550,130	\$ 25,597,923	\$ 64,862,683

NOTE L—SUBSEQUENT EVENTS

The USO evaluated its December 31, 2011 consolidated financial statements for subsequent events through, March 30, 2012, the date the consolidated financial statements were available to be issued.

On January 11, 2012, USO entered into an amendment to its office space lease agreement in order to lease additional space. The amendment provides for annual base rent of \$1,124,382 for the first lease year which begins May 1, 2012 and extends the lease term until January 31, 2017. The amendment provides for scheduled rent increases and increases in operating expenses and real estate taxes attributable to the leased property. A portion of the lease may be terminated before the lease terms date subject to a termination fee.

The USO is not aware of any additional subsequent events which would require disclosure in the consolidated financial statements.

Supplemental Information



United Service Organizations, Inc.

Consolidated Schedule of Functional Expenses

December 31,

2011

	Program Services					Fund-raising	Management and General	Total Operating Expenses
	USO Centers	Programs	Entertainment	Communications and Public Awareness Outreach	Total			
Salaries	\$ 15,326,714	\$ 1,124,752	\$ 953,333	2,407,574	\$ 19,812,373	\$ 2,315,923	\$ 3,755,087	\$ 25,883,383
Payroll taxes	1,259,803	64,831	68,557	174,674	1,567,865	173,209	251,030	1,992,104
Employee benefits	2,111,161	158,539	142,005	364,771	2,776,476	345,962	664,384	3,786,822
Total salaries and related expenses	18,697,678	1,348,122	1,163,895	2,947,019	24,156,714	2,835,094	4,670,501	31,662,309
Supplies and services	19,492,841	11,555,140	64,239,295	93,650	95,380,926	514,203	152,629	96,047,758
Printing and production	49,887	416	2,808,800	4,416,183	7,275,286	9,933,666	3,078,381	20,287,333
Marketing and promotion	—	—	—	150,154,238	150,154,238	471,178	—	150,625,416
Awards and grants	1,193,245	46,100	—	—	1,239,345	—	—	1,239,345
Professional fees	278,210	358,291	923,171	2,340,929	3,900,601	2,935,534	2,338,049	9,174,184
Subscriptions, dues, and staff training	27,835	762	2,171	10,367	41,135	72,009	118,848	231,992
Travel	1,726,107	120,597	3,323,567	257,942	5,428,213	491,798	221,364	6,141,375
General insurance	129,921	26,923	13,097	28,794	198,735	38,521	76,108	313,364
Occupancy	361,455	151,020	75,679	181,497	769,651	233,237	294,754	1,297,642
Rental and maintenance of equipment	347,663	31,817	—	—	379,480	—	117,892	497,372
Communication	475,103	4,530,615	51,115	379,085	5,435,918	60,021	334,025	5,829,964
Postage and shipping	51,753	267,507	15,931	2,763,133	3,098,324	1,733,714	1,891,593	6,723,631
Conferences and meetings	217,824	14,087	237	8,039	240,187	64,599	52,347	357,133
Depreciation and amortization	2,287,106	65,693	62,380	62,380	2,477,559	62,380	62,380	2,602,319
Other expenses	193,511	1,323	85,576	—	280,410	652,813	104,160	1,037,383
Total	\$ 45,530,139	\$ 18,518,413	\$ 72,764,914	\$ 163,643,256	\$ 300,456,722	\$ 20,098,767	\$ 13,513,031	\$ 334,068,520
Note: In-kind expenses included in supplies and services and marketing and promotion	\$ 11,887,453	\$ 4,836,865	\$ 62,532,375	\$ 149,231,621	\$ 228,488,314	\$ —	\$ —	\$ 228,488,314

The accompanying notes are an integral part of this statement.

United Service Organizations, Inc.

Consolidated Schedule of Functional Expenses

December 31,

2010

	Program Services					Fund-raising	Management and General	Total Operating Expenses
	USO Centers	Programs	Entertainment	Communications and Public Awareness Outreach	Total			
Salaries	\$ 14,963,635	\$ 898,874	\$ 1,072,246	1,154,610	\$ 18,089,365	\$ 2,167,234	\$ 3,744,530	\$ 24,001,129
Payroll taxes	1,188,590	45,852	75,078	92,692	1,402,212	163,203	249,106	1,814,521
Employee benefits	2,095,710	111,906	146,135	185,872	2,539,623	337,413	644,273	3,521,309
Total salaries and related expenses	18,247,935	1,056,632	1,293,459	1,433,174	22,031,200	2,667,850	4,637,909	29,336,959
Supplies and services	18,351,968	17,271,006	77,595,860	37,599	113,256,433	514,936	217,297	113,988,666
Printing and production	105,601	8,668	3,841,792	5,518,742	9,474,803	12,257,414	2,999,587	24,731,804
Marketing and promotion	4,560	—	129,844	117,564,490	117,698,894	564,279	—	118,263,173
Awards and grants	871,882	75,548	—	—	947,430	—	—	947,430
Professional fees	722,405	216,848	885,911	5,162,891	6,988,055	3,036,326	2,078,392	12,102,773
Subscriptions, dues, and staff training	151,694	8,269	29,427	20,305	209,695	83,506	30,443	323,644
Travel	2,246,294	123,051	4,062,234	347,622	6,779,201	564,421	278,070	7,621,692
General insurance	188,642	27,989	18,886	24,433	259,950	41,359	59,244	360,553
Occupancy	308,075	74,004	88,908	122,241	593,228	198,335	312,044	1,103,607
Rental and maintenance of equipment	336,689	45,469	—	—	382,158	8,488	74,208	464,854
Communication	675,117	4,563,029	54,471	356,366	5,648,983	71,297	212,595	5,932,875
Postage and shipping	133,585	263,302	12,524	3,175,806	3,585,217	2,105,843	1,726,409	7,417,469
Conferences and meetings	210,711	11,071	—	2,696	224,478	105,614	46,644	376,736
Depreciation and amortization	1,982,164	71,142	67,829	67,438	2,188,573	68,166	72,278	2,329,017
Other expenses	182,981	385	100,947	—	284,313	544,120	129,666	958,099
Total	\$ 44,720,303	\$ 23,816,413	\$ 88,182,092	\$ 133,833,803	\$ 290,552,611	\$ 22,831,954	\$ 12,874,786	\$ 326,259,351
Note: In-kind expenses included in supplies and services and marketing and promotion	\$ 10,071,886	\$ 6,690,927	\$ 76,879,200	\$ 116,089,778	\$ 209,731,791	\$ —	\$ —	\$ 209,731,791

The accompanying notes are an integral part of this statement.