



Consolidated Financial Statements and Report of  
Independent Certified Public Accountants

**United Service Organizations, Inc.**

December 31, 2012

# United Service Organizations, Inc.

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## **Report On the Financial Statements**

We have audited the accompanying consolidated financial statements of United Service Organizations, Inc. (USO), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor’s Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the USO’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the USO’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Service Organizations, Inc. as of December 31, 2012, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of functional expenses for the year ended December 31, 2012 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### *Report On 2011 Summarized Comparative Information*

We have previously audited the USO's 2011 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 30, 2012. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 27, 2013, on our consideration of USO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering USO's internal control over financial reporting and compliance.



McLean, Virginia  
March 27, 2013

# United Service Organizations, Inc.

## Consolidated Statements of Financial Position

<i>December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 23,829,589	\$ 17,470,401
Contributions receivable, net	13,916,277	12,956,876
Grants receivable	3,497,407	1,304,397
Other receivables, net	292,544	618,026
Prepaid expenses and other assets	1,907,133	1,494,131
Inventory	5,296,866	5,943,774
Investments	71,692,402	65,275,842
Programmatic investments	1,815,137	2,208,692
Fixed assets, net	7,759,666	7,978,565
<b>Total Assets</b>	<b>\$ 130,007,021</b>	<b>\$ 115,250,704</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 11,833,915	\$ 7,579,367
Deferred rent	471,852	383,950
<b>Total Liabilities</b>	<b>12,305,767</b>	<b>7,963,317</b>
<b>Net Assets</b>		
Unrestricted		
Operating	31,560,796	20,423,626
Board-designated		
Spirit of Hope	32,517,371	29,628,693
Total unrestricted	64,078,167	50,052,319
Temporarily restricted		
Desert Storm Education Fund	615,300	575,959
Spirit of Hope	12,863,002	9,448,551
Ongoing Program Activities	8,020,809	8,479,783
USO Warrior and Family Care	5,730,088	12,678,608
USO Centers and Councils	795,965	454,244
Total temporarily restricted	28,025,164	31,637,145
Permanently restricted		
Camp Casey	25,000	25,000
Spirit of Hope	25,572,923	25,572,923
Total permanently restricted	25,597,923	25,597,923
<b>Total Net Assets</b>	<b>117,701,254</b>	<b>107,287,387</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 130,007,021</b>	<b>\$ 115,250,704</b>

*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, 2012 (with summarized comparative totals for the year ended December 31, 2011)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
<b>Revenue and Support</b>					
Contributions:					
Corporate, foundation and individual giving	\$ 21,087,685	\$ 9,228,943	\$ —	\$ 30,316,628	\$ 29,501,369
Direct response	64,312,832	892,780	—	65,205,612	61,564,019
United way and CFC	1,875,369	—	—	1,875,369	2,106,253
Contributed materials, facilities and services	134,668,827	2,269,511	—	136,938,338	231,585,773
Grants	18,397,662	—	—	18,397,662	18,250,129
USO center revenue	6,302,264	—	—	6,302,264	7,834,849
Investment income (loss)	2,895,113	3,472,644	—	6,367,757	(178,103)
Other income (loss)	86,702	—	—	86,702	(237,349)
<b>Total Revenue and Support</b>	249,626,454	15,863,878	—	265,490,332	350,426,940
<b>Net Assets Released from Restrictions</b>	19,475,859	(19,475,859)	—	—	—
<b>Total Revenue and Other Support</b>	269,102,313	(3,611,981)	—	265,490,332	350,426,940
<b>Operating Expenses</b>					
Program services:					
USO centers	43,524,301	—	—	43,524,301	33,651,571
Programs	13,407,678	—	—	13,407,678	13,697,987
Contributed materials, facilities and services	137,879,064	—	—	137,879,064	228,448,303
Entertainment	8,831,137	—	—	8,831,137	10,240,398
Communications and public awareness outreach	16,400,240	—	—	16,400,240	14,564,797
<b>Total program expenses</b>	220,042,420	—	—	220,042,420	300,603,056
<b>Supporting Services</b>					
Fundraising	20,911,693	—	—	20,911,693	20,141,409
Management and general	14,122,352	—	—	14,122,352	13,324,055
<b>Total Supporting Services</b>	35,034,045	—	—	35,034,045	33,465,464
<b>Total Operating Expenses</b>	255,076,465	—	—	255,076,465	334,068,520
<b>Changes in Net Assets</b>	14,025,848	(3,611,981)	—	10,413,867	16,358,420
<b>Net Assets, beginning of year</b>	50,052,319	31,637,145	25,597,923	107,287,387	90,928,967
<b>Net Assets, end of year</b>	\$ 64,078,167	\$ 28,025,164	\$ 25,597,923	\$ 117,701,254	\$ 107,287,387

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

# United Service Organizations, Inc.

## Consolidated Statements of Cash Flows

<i>Years ended December 31,</i>	<b>2012</b>	<b>2011</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 10,413,867	\$ 16,358,420
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,521,752	2,602,319
Contributed investments	(688,319)	(896,993)
Change in discount and allowance on contributions receivable, net	125,449	213,902
Realized/unrealized (gain) loss on investments	(4,793,481)	1,923,933
Revenue from contributed inventory, construction materials, equipment	(2,341,437)	(7,070,076)
Contributed inventory used	3,349,523	3,972,617
Loss on disposal of fixed assets	14,617	356,785
Changes in assets and liabilities:		
Programmatic investments	459,954	(1,324,376)
Contributions receivable	(934,850)	(3,946,887)
Grants and other receivables	(2,017,528)	2,569,670
Prepaid expenses and other assets	(413,002)	(640,030)
Inventory	(740,573)	(1,678,497)
Accounts payable and accrued expenses	4,254,548	(4,422,257)
Deferred rent	(99,495)	(113,655)
<b>Net Cash Provided by Operating Activities</b>	<b>9,111,025</b>	<b>7,904,875</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of fixed assets	(1,817,077)	(1,426,394)
Proceeds from the sale of fixed assets	—	2,156
Purchase of investments	(22,243,701)	(26,551,501)
Sales of investments	21,308,941	26,023,321
<b>Net Cash Used in Investing Activities</b>	<b>(2,751,837)</b>	<b>(1,952,418)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>6,359,188</b>	<b>5,952,457</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>17,470,401</b>	<b>11,517,944</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 23,829,589</b>	<b>\$ 17,470,401</b>

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

# United Service Organizations, Inc.

## Notes to Consolidated Financial Statements

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*December 31, 2012 and 2011*

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### **NOTE A—ORGANIZATION**

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

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

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

The accompanying consolidated financial statements reflect the accounts of 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 the USO and are, therefore, excluded from the USO's consolidated financial statements.

#### ***Use of Estimates***

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

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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*December 31, 2012 and 2011*

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

#### ***Net Assets***

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

#### **Unrestricted Funds:**

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

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

- *Desert Storm Education Fund*—Contributions restricted to provide for academic or vocational scholarships to surviving family members of casualties of Desert Shield/Storm operations.
- *Ongoing Program Activities*—Contributions restricted for various worldwide USO programs, such as Operation USO Care Package, USO Operation Phone Home, USO2GO, United Through Reading's Military Program, and USO Centers.
- *USO Warrior and Family Care*—Contributions restricted for the establishment and operations of USO Warrior and Family Centers and programs that supports the continuum of care for wounded, ill or injured warriors. As of December 31, 2012 and 2011, this category of temporarily restricted net assets included both time restricted and program restricted contributions.
- *USO Centers and Councils*—Donor funds restricted for use in certain USO Centers and regional localities.
- *Spirit of Hope*—Earnings on donor-restricted endowment funds classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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*December 31, 2012 and 2011*

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

#### **Permanently Restricted Funds:**

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

#### ***Foreign Currency***

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

#### ***Cash and Cash Equivalents***

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

#### ***Investments***

Investments 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.

#### ***Programmatic Investments***

Investments that are made to further the mission of the USO and for which the production of income or the appreciation of assets is not a significant purpose are classified as programmatic investments. As of December 31, 2012 and 2011, programmatic investments are comprised of capitalized costs related to the construction of family centers that the USO intends to gift to the United States Government at completion.

#### ***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

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*December 31, 2012 and 2011*

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

##### ***Fixed Assets***

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

##### ***Contributed Materials and Facilities***

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

##### ***Contributed Services***

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

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

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

##### ***Contributions***

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

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

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*December 31, 2012 and 2011*

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

##### ***Contributions—Continued***

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

Unconditional promises to give product inventory that are expected to be received within three months or less are recorded at their net realizable value which is the estimated fair value based on a minimal timeframe between promise to give and receipt of goods. Inventory receivables are recorded at wholesale value. Wholesale value of the items donated is determined based on management's best estimate using information provided by donors and other third parties. The USO does not accept or record inventory receivables that are expected to be collected in greater than one year. Management considers all promises to give of product inventory to be fully collectible, therefore no allowance is recorded. As of December 31, 2012 and 2011, contributions receivable included \$0 and \$845,248, respectively, of unconditional promises to give product inventory.

##### ***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, the USO's management believes that costs ultimately disallowed, if any, would not materially affect the consolidated financial position of the USO.

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

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

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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*December 31, 2012 and 2011*

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

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

The carrying value of the USO's other receivables represents their estimated net realizable value. As of December 31, 2012, the USO has recorded an allowance for doubtful accounts against other receivables of \$150,000. As of December 31, 2011, there was no allowance for doubtful accounts recorded related to other receivables.

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

Financial instruments that potentially subject the USO to a concentration of credit risk include cash deposits with commercial banks. The USO's cash management policies limit its exposure to a concentration of credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Cash deposits may exceed the FDIC insurable limits at times throughout the year due to anticipated large expenses under various projects. As of December 31, 2012, balances held in interest bearing accounts in excess of the FDIC insurable limit were approximately \$16,278,000. Management does not consider this to be a significant credit risk. Amounts in foreign bank accounts total approximately \$1,500,000 at December 31, 2012.

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

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

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

The USO is exempt from federal income tax under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in IRC Section 501(c)(3). However, income generated from activities unrelated to the USO's exempt purpose is subject to tax under IRC Section 511. The USO did not have any material unrelated business income tax liability for the years ended December 31, 2012 and 2011. 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. The 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 the USO's consolidated financial statements for the year ended December 31, 2011, from which the summarized information was derived.

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

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December 31, 2012 and 2011

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

#### *USO Foundation*

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

#### *Reclassifications*

Certain reclassifications have been made to the December 31, 2011 amounts to conform to the December 31, 2012 presentation. Such reclassifications did not change total assets, liabilities, revenues and expenses or changes in net assets reflected in the 2011 consolidated financial statements.

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### NOTE C—CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable, net consist of the following unconditional promises to give as of December 31, 2012:

	Unrestricted	Temporarily Restricted	Total
Less than one year	\$ 7,895,690	\$ 3,694,127	\$ 11,589,817
One to five years	10,000	2,379,000	2,389,000
	7,905,690	6,073,127	13,978,817
Discount	(364)	(62,176)	(62,540)
	\$ 7,905,326	\$ 6,010,951	\$ 13,916,277

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2012 and 2011

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

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

An allowance for uncollectable accounts totaling \$184,000 and \$217,413 existed at December 31, 2012 and 2011, respectively.

#### NOTE D—INVESTMENTS

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

	2012	2011
Corporate and commercial obligations	\$ 9,727,613	\$ 8,341,771
U.S. Treasury securities and other government obligations	595,865	921,158
Corporate equity securities	58,164,416	50,937,257
Money market holdings	3,204,508	5,075,656
	\$ 71,692,402	\$ 65,275,842

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

*December 31, 2012 and 2011*

#### **NOTE D—INVESTMENTS—Continued**

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

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2012 and 2011

#### NOTE D—INVESTMENTS—Continued

Investments were recorded at fair value as of December 31, 2012 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	\$ 9,727,613	\$ 7,185,413	\$ 2,542,200	\$ —
U.S. Treasury securities and other government obligations	595,865	347,265	248,600	—
Corporate equity securities	58,164,416	58,164,416	—	—
Money market holdings	3,204,508	3,204,508	—	—
	<u>\$ 71,692,402</u>	<u>\$ 68,901,602</u>	<u>\$ 2,790,800</u>	<u>\$ —</u>

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 and other government obligations	921,158	921,158	—	—
Corporate equity securities	50,937,257	50,937,257	—	—
Money market holdings	5,075,656	5,075,656	—	—
	<u>\$ 65,275,842</u>	<u>\$ 63,240,311</u>	<u>\$ 2,035,531</u>	<u>\$ —</u>

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2012 and 2011

#### NOTE D—INVESTMENTS—Continued

The following schedule summarizes investment return:

	2012	2011
Interest and dividends	\$ 1,821,515	\$ 1,983,187
Net unrealized gains (losses)	3,401,499	(3,435,979)
Net realized gains	1,391,982	1,512,046
Less: investment expenses	(247,239)	(237,357)
	<u>\$ 6,367,757</u>	<u>\$ (178,103)</u>

#### NOTE E—PROGRAMMATIC INVESTMENTS

On December 18, 2009, the USO made a commitment to the United States Department of the Army (“Army”) to donate a USO Family Center (“Fort Belvoir Center”) at Fort Belvoir, Virginia. In addition, on December 17, 2009, the USO made a similar commitment to the United States Department of the Navy to donate a USO Family Center (“Bethesda Center”) at Naval Support Activity, Bethesda. The purpose of the donations are to provide centers for use by wounded, ill and injured service members, their families, and primary caregivers at both locations. The costs incurred by the USO to construct these centers have been recorded in and classified as programmatic investments.

As of December 31, 2012, all conditions of the commitment relating to the Fort Belvoir Center were met; and therefore the USO has reduced its programmatic investment and recognized programmatic expense in the accompanying 2012 financial statements of approximately \$9.5 million, comprised of the independently appraised value of the completed and contributed building of \$7.5 million plus additional directly related programmatic investment construction, design and other costs. The independent appraisal of the completed building was predicated upon the use of data for a recently constructed church facility as a deemed comparable use facility, and was further limited by the special purpose nature of the building and restrictions based on its location on a military installation. All of the \$9.5 million in costs incurred relating to the program project were paid for by the USO at fair market value.

The following is a summary of programmatic investments as of December 31:

	2012	2011
Fort Belvoir Center	\$ —	\$ 1,512,522
Bethesda Center	1,815,137	696,170
	<u>\$ 1,815,137</u>	<u>\$ 2,208,692</u>

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2012 and 2011

#### NOTE F—COMMITMENTS AND CONTINGENCIES

##### *Operating Leases*

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

2013	\$	1,178,617
2014		1,171,700
2015		1,200,992
2016		1,231,017
2017		103,426
		<hr/>
	\$	4,885,752

For the years ended December 31, 2012 and 2011, total rental expense under all operating leases was \$1,085,554 and \$988,823, respectively (excluding related in-kind support).

##### *Other*

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

##### *Construction Contract*

On December 26, 2011, the USO entered into a contract for approximately \$8 million with a construction company to serve as general contractor to the USO in connection with the construction of a two story multi-use facility, serving United States Department of Defense ("DoD") service members, 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. During 2012, the facility was substantially completed and was conveyed to the DoD Secretary of the Army, as per the terms of the proffer letter. The remaining commitment under the contract totaled approximately \$1,100,000 as of December 31, 2012. Of this amount, approximately \$790,000 is included in accounts payable as of December 31, 2012.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

*December 31, 2012 and 2011*

#### NOTE G—FIXED ASSETS

At December 31, fixed assets consist of the following:

	2012	2011
Furniture, fixtures, and equipment	\$ 9,862,046	\$ 8,439,828
Leasehold improvements	9,458,545	8,736,211
	19,320,591	17,176,039
Less: accumulated depreciation and amortization	(11,560,925)	(9,197,474)
	\$ 7,759,666	\$ 7,978,565

#### NOTE H—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, 2012 and 2011, as follows:

	2012	2011
Desert Storm Education Fund	\$ 18,852	\$ 56,100
Time Restricted	—	44,031
Ongoing Program Activities	4,640,412	8,855,655
USO Warrior and Family Care	12,980,721	1,316,077
USO Centers and Councils	1,835,874	767,721
	\$ 19,475,859	\$ 11,039,584

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

*December 31, 2012 and 2011*

### NOTE I—ALLOCATION OF JOINT COSTS

The 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 2012 and 2011:

	2012	2011
Programs	\$ 9,030,575	\$ 7,612,757
Management and general	6,207,746	5,998,674
Fundraising	14,786,251	14,202,326
	<u>\$ 30,024,572</u>	<u>\$ 27,813,757</u>

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

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

	2012	2011
Materials, facilities, and other services	\$ 14,924,920	\$ 19,821,777
Public Service Announcements	67,500,518	149,231,621
Celebrity entertainment	54,512,900	62,532,375
	<u>\$ 136,938,338</u>	<u>\$ 231,585,773</u>

### 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 percent over a period of five years; whereas, safe harbor non-elective contributions vest 100 percent over a period of 2 years. In 2012 and 2011, the 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.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

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*December 31, 2012 and 2011*

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#### **NOTE K—RETIREMENT PLAN—Continued**

The USO's policy is to fund retirement plan costs as accrued. Retirement plan expense was \$1,270,675 and \$1,629,611 for the years ended December 31, 2012 and 2011, respectively.

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#### **NOTE L—ENDOWMENT**

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

During 2008, the District of Columbia enacted into law the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Management of the USO has interpreted the District of Columbia law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the USO classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. As of December 31, 2012, there are no plans for the earnings of the endowment to be spent.

The 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 the USO in perpetuity with no short term plans for withdraws from the fund. The USO's ability to tolerate risk and volatility should be consistent with that of a conservative growth portfolio, with investments made in companies that demonstrate consistent growth over time. Asset allocations are developed in accordance with this long-term, conservative growth strategy.

## United Service Organizations, Inc.

### Notes to Consolidated Financial Statements—Continued

December 31, 2012 and 2011

#### NOTE L—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:

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 12,863,002	\$ 25,597,923	\$ 38,460,925
Board-designated endowment funds	32,517,371	—	—	32,517,371
<b>Total funds</b>	<b>\$ 32,517,371</b>	<b>\$ 12,863,002</b>	<b>\$ 25,597,923</b>	<b>\$ 70,978,296</b>
2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 29,628,693	\$ 9,448,551	\$ 25,597,923	\$ 64,675,167
Investment return:				
Investment income	712,582	842,280	—	1,554,862
Net appreciation	2,176,096	2,572,171	—	4,748,267
<b>Total investment return</b>	<b>2,888,678</b>	<b>3,414,451</b>	<b>—</b>	<b>6,303,129</b>
Endowment net assets, end of year	\$ 32,517,371	\$ 12,863,002	\$ 25,597,923	\$ 70,978,296

## United Service Organizations, Inc.

Notes to Consolidated Financial Statements—Continued

*December 31, 2012 and 2011*

### NOTE L—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:

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

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*December 31, 2012 and 2011*

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### **NOTE M—SUBSEQUENT EVENTS**

The USO evaluated its December 31, 2012 consolidated financial statements for subsequent events through, March 27, 2013, the date the consolidated financial statements were available to be issued.

On February 12, 2013, the USO entered into a contract for approximately \$9 million with a construction company to serve as general contractor to the USO in connection with the construction of a multi-use facility, serving United States Department of Defense (“DoD”) service members, 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 at the Walter Reed National Military Medical Center in Bethesda, Maryland. The date of commencement of the construction is contingent upon the USO providing evidence of financing to meet the obligation under the contract. On February 5, 2013, the USO received a pledge from an owner of the construction company in the amount of \$6.5 million to be paid over the period of construction. The remaining construction cost is being funded with additional donated dollars through a capital campaign. Once the facility is complete and certified for occupancy, the USO will convey the building to the DoD Secretary of the Navy, as per the terms of the proffer letter, which requires such conveyance.

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,

2012

	Program Services					Fund-raising	Management and General	Total Operating Expenses
	USO Centers	Programs	Entertainment	Communications and Public Awareness Outreach	Total			
Salaries	\$ 15,201,747	\$ 1,215,841	\$ 897,083	2,840,066	\$ 20,154,737	\$ 2,825,447	\$ 4,522,326	\$ 27,502,510
Payroll taxes	1,266,538	72,011	66,588	201,634	1,606,771	204,250	288,273	2,099,294
Retirement plan	639,254	54,638	45,473	147,541	886,906	140,396	243,373	1,270,675
Employee benefits	1,309,643	87,469	57,463	227,576	1,682,151	198,771	373,006	2,253,928
Total salaries and related expenses	18,417,182	1,429,959	1,066,607	3,416,817	24,330,565	3,368,864	5,426,978	33,126,407
Contribution of center and related costs	10,075,232	—	—	—	10,075,232	—	—	10,075,232
Supplies and services	18,814,761	10,375,250	56,018,395	121,730	85,330,136	640,621	204,618	86,175,375
Printing and production	37,349	2,309	1,876,560	4,528,410	6,444,628	10,016,807	2,963,360	19,424,795
Marketing and promotion	—	—	5,125	68,654,982	68,660,107	767,263	—	69,427,370
Awards and grants	1,671,319	18,852	—	—	1,690,171	—	—	1,690,171
Professional fees	370,274	345,114	902,055	2,819,874	4,437,317	2,363,079	1,993,760	8,794,156
Subscriptions, dues, and staff training	22,932	256	2,474	10,406	36,068	109,974	74,830	220,872
Travel	1,545,458	120,992	3,237,240	310,356	5,214,046	599,720	211,039	6,024,805
General insurance	126,895	28,783	11,506	38,917	206,101	38,341	67,246	311,688
Occupancy	355,817	149,185	68,203	233,775	806,980	222,091	362,725	1,391,796
Rental and maintenance of equipment	371,650	36,509	5,232	18,965	432,356	24,197	28,774	485,327
Communication	925,676	3,995,300	57,196	244,537	5,222,709	236,855	328,394	5,787,958
Postage and shipping	123,599	653,536	9,937	3,511,322	4,298,394	2,012,702	2,122,170	8,433,266
Conferences and meetings	2,536	1,693	8,497	23,198	35,924	72,579	50,691	159,194
Depreciation and amortization	2,254,858	56,029	52,716	52,716	2,416,319	52,716	52,717	2,521,752
Other expenses	303,888	50,513	50,966	—	405,367	385,884	235,050	1,026,301
Total	\$ 55,419,426	\$ 17,264,280	\$ 63,372,709	\$ 83,986,005	\$ 220,042,420	\$ 20,911,693	\$ 14,122,352	\$ 255,076,465
Note: In-kind expenses included in supplies and services, marketing and promotion, and professional fees	\$ 11,895,125	\$ 3,856,602	\$ 54,541,572	\$ 67,585,765	\$ 137,879,064	\$ 113,233	\$ 61,455	\$ 138,053,752

The accompanying notes are an integral part of this statement.

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	2,513,861	\$ 19,918,660	\$ 2,315,923	\$ 3,648,800	\$ 25,883,383
Payroll taxes	1,259,803	64,831	68,557	179,482	1,572,673	173,209	246,222	1,992,104
Retirement plan	909,265	68,971	70,921	166,385	1,215,542	158,859	255,210	1,629,611
Employee benefits	1,201,896	89,568	71,084	214,255	1,576,803	187,103	393,305	2,157,211
Total salaries and related expenses	18,697,678	1,348,122	1,163,895	3,073,983	24,283,678	2,835,094	4,543,537	31,662,309
Contribution of center and related costs	—	—	—	—	—	—	—	—
Supplies and services	19,535,239	11,449,440	64,244,670	26,063	95,255,412	531,520	175,324	95,962,256
Printing and production	49,887	416	2,808,800	4,416,182	7,275,285	9,933,666	3,078,381	20,287,332
Marketing and promotion	—	—	—	150,239,741	150,239,741	471,178	—	150,710,919
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	355,522	49,283	7,859	26,198	438,862	25,325	33,185	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	194,538	296	85,576	—	280,410	652,813	104,160	1,037,383
Total	\$ 45,581,423	\$ 18,429,152	\$ 72,778,148	\$ 163,814,333	\$ 300,603,056	\$ 20,141,409	\$ 13,324,055	\$ 334,068,520
Note: In-kind expenses included in supplies and services, marketing and promotion, and professional fees	\$ 11,929,852	\$ 4,731,165	\$ 62,537,750	\$ 149,249,536	\$ 228,448,303	\$ 17,318	\$ 22,693	\$ 228,488,314

The accompanying notes are an integral part of this statement.