

USO of North Carolina, Inc.

FINANCIAL STATEMENTS

For the Years Ended September 30, 2013 and 2012

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	3
COMPARATIVE FINANCIAL STATEMENTS	
Statements of Financial Position	4
Statements of Activities	5
Statements of Functional Expenses	7
Statements of Cash Flows	8
Notes to the Financial Statements	9



WILLIAMS · SCARBOROUGH · SMITH · GRAY, LLP
Certified Public Accountants

Christopher K. Williams, CPA
Steven N. Scarborough, CPA
Charles S. Smith, CPA
W. Randall Gray, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
USO of North Carolina, Inc.
Raleigh, North Carolina

We have audited the accompanying financial statements of the USO of North Carolina, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years 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 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of the USO of North Carolina, Inc. as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Williams · Scarborough · Smith · Gray, LLP
Jacksonville, North Carolina
February 21, 2014

2131 S. Glenburnie Rd, Ste 2
PO Box 14008
New Bern, NC 28561-4008

INNOVATIVE · RESPONSIVE · DEDICATED

824 Gum Branch Rd, Ste K
PO Box 5003
Jacksonville, NC 28540

Phone (252) 638-4000
Fax (252) 638-3989

www.wssgcpa.com

Phone (910) 455-2196
Fax (910) 455-1943

USO of North Carolina, Inc.

STATEMENTS OF FINANCIAL POSITION

	September 30,	
	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 747,294	\$ 386,516
Investments	1,445	1,314
Promises to give	120,565	135,944
Inventory (lower of cost or market)	28,667	32,593
Other assets	63,762	33,065
Total Current Assets	961,733	589,432
PROPERTY AND EQUIPMENT		
Land	31,102	31,102
Building leases	15,500	77,498
Furniture and fixtures	154,348	147,102
Equipment and vehicles	610,136	427,711
	811,086	683,413
Accumulated depreciation	(386,624)	(327,663)
Total Property and Equipment	424,462	355,750
ENDOWMENTS	154,687	138,533
TOTAL ASSETS	<u>\$ 1,540,882</u>	<u>\$ 1,083,715</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued payables	\$ 258,305	\$ 90,406
Deferred revenues	285,692	272,780
Total Current Liabilities	543,997	363,186
NET ASSETS		
Unrestricted	940,453	581,718
Temporarily restricted	15,500	102,498
Permanently restricted	40,932	36,313
Total Net Assets	996,885	720,529
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,540,882</u>	<u>\$ 1,083,715</u>

See Accompanying Notes to the Financial Statements
and Independent Auditor's Report.

USO of North Carolina, Inc.

STATEMENTS OF ACTIVITIES

	For the Years Ended September 30,	
	2013	2012
UNRESTRICTED NET ASSETS		
Unrestricted revenues, gains and other support		
Contributions and grants	\$ 3,374,032	\$ 5,297,825
Program service fees	57,483	61,019
Net unrealized and realized gains from long-term investments	10,381	2,372
Interest and investment income	2,652	677
	<u>3,444,548</u>	<u>5,361,893</u>
Unrestricted revenues/gains	3,444,548	5,361,893
Net assets released from restrictions		
Contributions	25,000	-
Building lease expense	61,998	61,998
	<u>86,998</u>	<u>61,998</u>
Unrestricted revenues/gains and other support	3,531,546	5,423,891
Expenses		
Program services	2,512,986	4,832,707
Supporting services	240,058	214,940
Fundraising services	419,767	378,431
	<u>3,172,811</u>	<u>5,426,078</u>
Total expenses	3,172,811	5,426,078
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	358,735	(2,187)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>581,718</u>	<u>583,905</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 940,453</u>	<u>\$ 581,718</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	\$ -	\$ 25,000
Net assets released from restrictions	(86,998)	(61,998)
	<u>(86,998)</u>	<u>(61,998)</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	(86,998)	(36,998)
TEMPORARILY RESTRICTED NET ASSET, BEGINNING OF YEAR	<u>102,498</u>	<u>139,496</u>
TEMPORARILY RESTRICTED NET ASSETS, END OF YEAR	<u>\$ 15,500</u>	<u>\$ 102,498</u>

See Accompanying Notes to the Financial Statements
and Independent Auditor's Report.

USO of North Carolina, Inc.

STATEMENTS OF ACTIVITIES

	For the Years Ended September 30,	
	2013	2012
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	\$ -	\$ 25,000
Net unrealized and realized gains on long-term investments	3,786	1,414
Interest and investment income	833	443
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	4,619	26,857
PERMANENTLY RESTRICTED NET ASSET, BEGINNING OF YEAR	36,313	9,456
PERMANENTLY RESTRICTED NET ASSETS, END OF YEAR	<u>\$ 40,932</u>	<u>\$ 36,313</u>
INCREASE (DECREASE) IN NET ASSETS	276,356	(12,328)
NET ASSETS, BEGINNING OF YEAR	<u>720,529</u>	<u>732,857</u>
NET ASSETS, END OF YEAR	<u>\$ 996,885</u>	<u>\$ 720,529</u>

See Accompanying Notes to the Financial Statements
and Independent Auditor's Report.

USO of North Carolina, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

				Total	
	Program	Support	Fundraising	For the Years Ended September 30,	
	Services	Services	Services	2013	2012
Compensation	\$ 785,801	\$ 66,325	\$ 49,324	\$ 901,450	\$ 801,460
Employee benefits	78,276	4,308	3,698	86,282	48,462
Payroll taxes	66,646	3,705	3,705	74,056	69,828
Occupancy					
Building rent and utilities	176,007	33,001	11,000	220,008	186,084
Repairs and maintenance	-	-	-	-	433
Insurance-other	12,374	4,124	-	16,498	9,533
Equipment					
Equipment repair and rental	6,226	328	-	6,554	6,470
Depreciation	79,869	26,624	-	106,493	96,133
Administration					
Postage	961	3,588	67	4,616	3,646
Office expenses	2,734	10,202	189	13,125	16,999
Snack bar and gift shop supplies	47,111	-	-	47,111	29,839
Telephone	32,320	3,800	1,900	38,020	30,335
Cable	6,816	-	-	6,816	6,509
Program supplies	164,630	-	-	164,630	50,802
Professional fees	-	30,380	98,900	129,280	32,251
Advertising	25,502	23,313	7,678	56,493	71,946
Travel	64,325	9,837	1,514	75,676	72,834
Subscriptions	84	-	-	84	323
Dues and memberships	-	8,089	-	8,089	8,203
Special projects expenses	930,838	-	239,510	1,170,348	3,827,420
Bank charges	-	5,662	-	5,662	6,437
Worker's compensation	7,388	3,696	-	11,084	10,214
Miscellaneous	25,078	3,076	2,282	30,436	39,917
	<u>\$ 2,512,986</u>	<u>\$ 240,058</u>	<u>\$ 419,767</u>	<u>\$ 3,172,811</u>	<u>\$ 5,426,078</u>

See Accompanying Notes to the Financial Statements
and Independent Auditor's Report.

USO of North Carolina, Inc.

STATEMENTS OF CASH FLOWS

	For the Years Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in net assets	\$ 276,356	\$ (12,328)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	106,493	96,133
Donated property and equipment in contributions	(60,682)	(35,548)
Net noncash rent expense	61,998	61,998
Loss on disposal of fixed assets	13,063	4,991
Interest and dividends from long-term investments	(2,117)	(631)
Net unrealized and realized gains short-term investments	(105)	(273)
Net unrealized and realized gains long-term investments	(14,063)	(3,446)
(Increase) Decrease in operating assets:		
Promises to give	15,379	(84,953)
Inventory	3,926	(25,442)
Other assets	(30,697)	32,646
Increase (Decrease) in operating liabilities:		
Accrued payables	167,899	16,825
Deferred revenues	12,912	(27,725)
NET CASH PROVIDED BY OPERATING ACTIVITIES	550,362	22,247
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of equipment	-	1,000
Purchase of investments	-	(125,000)
Purchase of fixed assets	(189,584)	(23,381)
NET CASH USED BY INVESTING ACTIVITIES	(189,584)	(147,381)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	360,778	(125,134)
BEGINNING CASH AND CASH EQUIVALENTS	386,516	511,650
ENDING CASH AND CASH EQUIVALENTS	\$ 747,294	\$ 386,516

See Accompanying Notes to the Financial Statements
and Independent Auditor's Report.

USO of North Carolina, Inc.

NOTES TO THE FINANCIAL STATEMENTS

DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Activities

The United Service Organizations (USO) of North Carolina, Inc. is a Congressionally chartered agency. For over 70 years, the USO has been devoted to enhancing the quality of life for United States Armed Forces personnel and their families and creating a cooperative relationship between the U.S. military communities and involved or supporting civilian communities. The USO of NC has a mobile and 5 “home away from home” centers located in Jacksonville, Ft. Bragg, Fayetteville Regional Airport, Raleigh-Durham International Airport and the Charlotte Douglas International Airport. All centers provide a safe haven and a welcoming atmosphere where both military and family members can find a reprieve from the unique amount of stress that the military lifestyle creates. All programs and services provided at the centers are done so free of charge. Recreational activities, wholesome entertainment venues, special events, picnics, deployment and welcome home events are everyday business to the USO. Free home cooked meals are offered on every major holiday and numerous outreach programs such as the Wounded Warrior program, Food Pantry program, United Through Reading™, and our surprise birthday cake program for single service members are offered year round. In an effort to blend the military and civilian communities, the USO participates in many Chamber of Commerce events and cooperates with other community organizations such as the Girls and Boy Scouts, church groups and civic organizations.

Basis of Accounting

The financial statements are reported on the accrual basis in conformity with generally accepted accounting principles.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the USO that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The USO uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. In the current year the allowance is \$0 and all items are considered collectible within the following year.

Cash Equivalents

For purposes of the statements of cash flows, the USO considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

USO of North Carolina, Inc.

NOTES TO THE FINANCIAL STATEMENTS

DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Property and Equipment

The USO capitalizes property and equipment over \$500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the USO reports expirations of donor restrictions when the donated or acquired assets are placed in service. The USO reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over useful life ranging from three to fifteen years.

Donated Materials and Services

Donated equipment and materials are reflected as contributions at their estimated value at the date of receipt. No amounts have been reflected in the statements for donated services in as much as no objective basis is available to measure the value of such services. The USO had more than 800 volunteers in the current fiscal year.

Use Of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

Income Taxes

The USO is a not-for-profit organization that is exempt from income taxes under Section 510(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The USO's Forms 990, Return of Organization Exempt from Income Tax, for the fiscal years ending 2013, 2012 and 2011 are subject to examination by the IRS, generally for three years after they were filed.

NOTES TO THE FINANCIAL STATEMENTS

DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement to activities. Accordingly, certain costs have been allocated among the programs and support services benefited. In general, most expenses are allocated to program vs. support based on either square footage used, or on time expended.

Inventory Valuation

Inventories are stated at estimated fair value. Although this does not follow the lower of cost or market as set forth by generally accepted accounting standards, the effect on the financial statements is considered immaterial.

RESTRICTIONS ON NET ASSETS

In the fiscal year ending September 30, 2012, the USO received \$25,000 in funds restricted to the development of a satellite center at the University of North Carolina at Charlotte. The funds have been moved to unrestricted in the current year.

As discussed in the use of facilities section below, \$15,500 in assets relate to the donated use of the Jacksonville facilities are restricted for that purpose.

Temporarily restricted net assets are available for the following purposes or periods:

	September 30,	
	2013	2012
Satellite center at UNC	\$ -	\$ 25,000
Jacksonville lease	15,500	77,498
	<u>\$ 15,500</u>	<u>\$ 102,498</u>

USO of North Carolina, Inc.

NOTES TO THE FINANCIAL STATEMENTS

RESTRICTIONS ON NET ASSETS (continued)

Endowment Funds

The USO has an endowment fund administered by the North Carolina Community Foundation. The endowment is an agency endowment and the principal of this endowment is permanently restricted. The ending balance at September 30, 2013 was \$40,932. The USO is only permitted to access the endowment's current year earnings.

The USO also has endowment fund administered by the Foundations for the Carolinas. The endowment is a quasi-endowment and is classified as unrestricted. The ending balance at September 30, 2013 was \$113,754. The USO can access all funds in the endowment.

	Unrestricted	Permanently Restricted	Total
Endowment net assets, October 1, 2011	\$ -	\$ 9,456	\$ 9,456
Contributions	100,000	25,000	125,000
Investment income	188	443	631
Net appreciation	2,049	1,397	3,446
Endowment net assets, September 30, 2012	102,237	36,296	138,533
Investment income	1,258	833	2,091
Net appreciation	10,259	3,803	14,062
Endowment net assets, September 30, 2013	\$ 113,754	\$ 40,932	\$ 154,686

USO of North Carolina, Inc.

NOTES TO THE FINANCIAL STATEMENTS

SCHEDULE OF CASH AND CASH EQUIVALENTS

	September 30,	
	2013	2012
Cash on hand	\$ 962	\$ 523
Cash in bank - checking	262,510	283,647
Cash in bank - savings	459,008	77,741
Certificate of deposit	24,814	24,605
	<u>\$ 747,294</u>	<u>\$ 386,516</u>

For purposes of cash flow, the Organization considers all highly liquid investments available for current use. Interest on savings account was 0.25% at year-end. Interest on the checking accounts was 0.05%.

OTHER ASSETS

Other assets consisted of the following:

	September 30,	
	2013	2012
Sales tax receivable	\$ 9,807	\$ 9,182
Prepaid expenses	53,955	23,883
	<u>\$ 63,762</u>	<u>\$ 33,065</u>

ACCRUED PAYABLES

Accrued payables consisted of the following:

	September 30,	
	2013	2012
Accounts payable	\$ 166,095	\$ 26,700
Payroll liabilities	41,920	32,154
Accrued vacation	50,290	31,552
	<u>\$ 258,305</u>	<u>\$ 90,406</u>

CONCENTRATION OF CREDIT RISK

The USO maintains its cash balances at several financial institutions. At various time during the year, the cash balances may exceed the FDIC limit. At September 30, 2013, the USO maintained \$518,377 in cash balances that were not FDIC insured.

NOTES TO THE FINANCIAL STATEMENTS

FAIR VALUE MEASUREMENT

The USO believes that the financial statements materially reflect the fair values of all assets and liabilities presented on the balance sheet.

USE OF DONATED FACILITIES

The USO of North Carolina leases its center in Jacksonville, North Carolina from the Department of the Navy to service military personnel in this area. The facilities are leased from Department of the Navy under a zero rent lease which is cancelable by the Department at any time. The Organization has capitalized the net present value of the net rentals and, correspondingly recorded the use of the donated facilities as a restricted contribution in the appropriate periods.

In 2004, the USO established a center located at the Raleigh-Durham International Airport to service military personnel departing and arriving from this location. The facilities are leased annually from the Raleigh-Durham Airport Authority under a \$1 rent lease which runs from July 1, 2004 through December 31, 2013. The donated rent and utilities and corresponding rent and utilities expense are recognized annually. For the year ending September 30, 2013, the Organization recognized \$33,000 in donated rent and utilities and the same amount in rent and utilities expense.

In 2006, the USO established a center located at the Charlotte Douglas International Airport to service military personnel departing and arriving from this location. The facilities are leased from the Charlotte Airport Authority under a zero rent lease which is cancelable by the authority at a month's notice. The donated rent and corresponding rent expense are recognized annually. For the year ending September 30, 2013, the Organization recognized \$50,685 in donated rent and utilities and the same amount in rent and utilities expense.

In 2008, the USO established a center located at Ft. Bragg, Fayetteville, North Carolina, to service military personnel in this area. The facilities are leased from Department of the Army under a zero rent lease which is cancelable by the Department at any time. The donated rent and utilities and corresponding rent and utilities expense are recognized annually. For the year ending September 30, 2013, the Organization recognized \$24,000 in donated rent and utilities and the same amount in rent and utilities expense.

In 2012, the USO established a center located at the Fayetteville Regional Airport, Fayetteville, North Carolina, to service military personnel departing and arriving from this location. The facilities are leased from City of Fayetteville under a zero rent lease which is cancelable by the City at any time. The donated rent and utilities and corresponding rent and utilities expense are recognized annually. For the year ending September 30, 2013, the Organization recognized \$21,228 in donated rent and utilities and the same amount in rent and utilities expense.

USO of North Carolina, Inc.

NOTES TO THE FINANCIAL STATEMENTS

USE OF DONATED FACILITIES (continued)

	September 30,	
	2013	2012
Net present value of lease at beginning of year	\$ 77,498	\$ 139,496
Value of rents expired during the year	(61,998)	(61,998)
Net present value of lease at end of the year	<u>\$ 15,500</u>	<u>\$ 77,498</u>

IN-KIND DONATIONS

The USO relies on donations of property and equipment, food, supplies, use of facilities, and other items to continue various programs. These items are recorded as revenue at their estimated fair value. For the years ending September 30, 2013 and 2012, the USO recognized in-kind donations of \$1,162,857 and \$3,159,304, respectively, which includes the value of donated facilities discussed in the note above. The balance for September 30, 2012 included \$1,283,405 in donated advertising for USO events.

EVALUATION OF SUBSEQUENT EVENTS

The USO has evaluated subsequent events through February 21, 2014, the date which the financial statements were available to be issued.

INVESTMENTS

Investments as of September 30, 2013, are summarized as follows:

	Unrestricted	Permanently Restricted	Total
Fair Value	<u>\$ 115,199</u>	<u>\$ 40,932</u>	<u>\$ 156,131</u>
Carrying Value	<u>\$ 115,199</u>	<u>\$ 40,932</u>	<u>\$ 156,131</u>

NOTES TO THE FINANCIAL STATEMENTS

INVESTMENTS (continued)

Investments as of September 30, 2012, are summarized as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Fair Value	<u>\$ 103,534</u>	<u>\$ 36,313</u>	<u>\$ 139,847</u>
Carrying Value	<u>\$ 103,534</u>	<u>\$ 36,313</u>	<u>\$ 139,847</u>

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended September 30, 2013:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Realized and Unrealized Investment Income	<u>\$ 11,665</u>	<u>\$ 4,619</u>	<u>\$ 16,284</u>

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended September 30, 2012:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Realized and Unrealized Investment Income	<u>\$ 2,493</u>	<u>\$ 1,857</u>	<u>\$ 4,350</u>

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of September 30, 2013.

Mutual funds, money market funds and fixed income funds: Valued at the net asset value ('NAV') of shares held by the USO at year end.

Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the USO believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

USO of North Carolina, Inc.

NOTES TO THE FINANCIAL STATEMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

All investments in the Statement of Net Assets are reported at fair value. The following table sets forth by level within the fair value hierarchy the USO's assets at fair value as of September 30, 2013 and 2012.

		2013			
		Level 1	Level 2	Level 3	Total
<u>Investments*</u>					
Equities		\$ 156,131	\$ -	\$ -	\$ 156,131
		2012			
		Level 1	Level 2	Level 3	Total
<u>Investments*</u>					
Equities		\$ 139,847	\$ -	\$ -	\$ 139,847

*Certificates of deposits are excluded from the fair value hierarchy and accordingly are not part of investments.