USO of North Carolina, Inc.

FINANCIAL STATEMENTS

For the Years Ended September 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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.

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May 10, 2017

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USO of North Carolina, Inc.

STATEMENTS OF FINANCIAL POSITION

	September 30, 2016	September 30, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,047,501	$ 1,029,158
Promises to give	87,926	66,064
Inventory (lower of cost or market)	14,804	18,117
Other assets	23,538	35,738
Total Current Assets	1,173,769	1,149,077
PROPERTY AND EQUIPMENT		
Land	31,102	31,102
Furniture and fixtures	147,103	190,148
Equipment and vehicles	689,944	691,447
	868,149	912,697
Accumulated depreciation	(594,653)	(560,416)
Total Property and Equipment	273,496	352,281
ENDOWMENTS	315,383	239,144
TOTAL ASSETS	$ 1,762,648	$ 1,740,502
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued payables	$ 281,059	$ 145,062
Deferred revenues	184,144	140,807
Total Current Liabilities	465,203	285,869
NET ASSETS		
Unrestricted	1,199,978	1,366,810
Permanently restricted	97,467	87,823
Total Net Assets	1,297,445	1,454,633
TOTAL LIABILITIES AND NET ASSETS	$ 1,762,648	$ 1,740,502

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, 2016	2015
UNRESTRICTED NET ASSETS		
Unrestricted revenues, gains and other support		
Contributions and grants	$ 4,954,361	$ 4,923,872
Program service fees	65,528	55,378
Investment return	13,804	(6,078)
Total unrestricted revenues/gains and other support	5,033,693	4,973,172
Expenses		
Program services	4,529,988	4,402,653
Supporting services	308,129	235,675
Fundraising services	362,408	263,482
Total expenses	5,200,525	4,901,810
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(166,832)	71,362
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	1,366,810	1,295,448
UNRESTRICTED NET ASSETS, END OF YEAR	$ 1,199,978	$ 1,366,810

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, 2016	2015
PERMANENTLY RESTRICTED NET ASSETS		
Investment return	$ 9,644	$ (3,637)
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	9,644	(3,637)
PERMANENTLY RESTRICTED NET ASSET, BEGINNING OF YEAR	87,823	91,460
PERMANENTLY RESTRICTED NET ASSETS, END OF YEAR	$ 97,467	$ 87,823
INCREASE (DECREASE) IN NET ASSETS	(157,188)	67,725
NET ASSETS, BEGINNING OF YEAR	1,454,633	1,386,908
NET ASSETS, END OF YEAR	$ 1,297,445	$ 1,454,633

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

USO of North Carolina, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES

	Program Services	Support Services	Fundraising Services	Total For the Years Ended September 30, 2016	Total For the Years Ended September 30, 2015
Compensation	$ 957,471	$ 78,686	$ 59,567	$ 1,095,724	$ 1,023,843
Employee benefits	94,997	5,222	4,347	104,566	107,839
Payroll taxes	83,627	4,649	4,649	92,925	85,747
Occupancy					
Building rent and utilities	434,301	80,353	26,782	541,436	229,877
Insurance-other	16,526	5,508	-	22,034	20,585
Equipment					
Equipment repair and rental	8,861	467	-	9,328	12,924
Depreciation	92,087	30,698	-	122,785	129,512
Office expenses	4,544	16,956	315	21,815	20,560
Snack bar and gift shop supplies	33,021	-	-	33,021	16,611
Telephone	62,593	7,359	3,679	73,631	48,324
Cable	8,426	-	-	8,426	7,476
Program supplies	145,002	-	-	145,002	133,904
Professional fees	-	38,974	-	38,974	19,970
Advertising	43,629	8,183	2,730	54,542	49,098
Travel	70,884	10,840	1,669	83,393	89,117
Dues and memberships	-	8,014	-	8,014	8,382
Special projects expenses	2,441,537	-	256,710	2,698,247	2,859,859
Bank charges	-	4,105	-	4,105	3,545
Worker's compensation	10,940	5,473	-	16,413	9,625
Miscellaneous	21,542	2,642	1,960	26,144	25,012
	$ 4,529,988	$ 308,129	$ 362,408	$ 5,200,525	$ 4,901,810

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, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	$ (157,188)	$ 67,725
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	122,785	129,512
Donated property and equipment in contributions	(34,696)	(14,522)
Loss on disposal of fixed assets	594	-
Interest and dividends from long-term investments	(2,555)	(6,207)
Net unrealized and realized gains long-term investments	(22,614)	19,236
(Increase) Decrease in operating assets:		
Promises to give	(21,862)	168,629
Inventory	3,313	2,991
Other assets	12,200	22,968
Increase (Decrease) in operating liabilities:		
Accrued payables	135,997	(59,392)
Deferred revenues	43,337	(157,698)
NET CASH PROVIDED BY OPERATING ACTIVITIES	79,311	173,242
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	-	1,466
Purchase of investments	(50,000)	(1,004)
Purchase of fixed assets	(10,968)	(44,000)
NET CASH USED BY INVESTING ACTIVITIES	(60,968)	(43,538)
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,343	129,704
BEGINNING CASH AND CASH EQUIVALENTS	1,029,158	899,454
ENDING CASH AND CASH EQUIVALENTS	$ 1,047,501	$ 1,029,158

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

DESCRIPTION OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Activities

The United Service Organizations (USO) of North Carolina, Inc. is a Congressionally charted 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.

There were no restrictions on cash at September 30, 2016 and 2015.

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 live ranging from three to fifteen years.

Long-lived assets held and used by the USO are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed. No impairments were recorded in the current year.

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 501(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 2016, 2015 and 2014 are subject to examination by the IRS, generally for three years after they were filed.

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

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, 2016 was $122,468. 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, 2016 was $192,983. The USO can access all funds in the endowment.

Fee expense for the endowments is netted against net appreciation. For the years ending September 30, 2016 and 2015, the fees were $2,885 and $2,705, respectively.

Endowment Funds (Continued)

	Unrestricted	Permanently Restricted	Total
Endowment net assets, September 30, 2014	$ 159,595	$ 91,460	$ 251,055
Contributions	1,003	-	1,003
Investment income	4,174	2,030	6,204
Net appreciation (loss)	(13,451)	(5,667)	(19,118)
Endowment net assets, September 30, 2015	151,321	87,823	239,144
Contributions	29,041	25,000	54,041
Investment Income	-	2,555	2,555
Net appreciation	12,621	7,022	19,643
Endowment net assets, September 30, 2016	$ 192,983	$ 122,400	$ 315,383

SCHEDULE OF CASH AND CASH EQUIVALENTS

	September 30, 2016	September 30, 2015
Cash on hand	$ 469	$ 469
Undeposited funds	2,977	191,685
Cash in bank - checking	526,884	375,724
Cash in bank - savings	517,171	461,280
	$ 1,047,501	$ 1,029,158

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, 2016	September 30, 2015
Prepaid expenses and sales tax receivable	$ 23,538	$ 35,738
	$ 23,538	$ 63,762

ACCRUED PAYABLES

Accrued payables consisted of the following:

	September 30, 2016	September 30, 2015
Accounts payable	$ 176,062	$ 26,006
Payroll liabilities	32,563	56,955
Accrued vacation	72,434	62,101
	$ 281,059	$ 145,062

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, 2016, the USO maintained $766,683 in cash balances that were not FDIC insured.

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 has various low/no-cost lease agreements for it's centers in Jacksonville, Raleigh-Durham International Airport, Charlotte Douglas International Airport, Fort Bragg and Fayetteville Airport. The USO recognizes the estimated fair market value of donated rent and utilities as contributions on an annual basis. The same amount is recognized as occupancy expense in the same year. For the years ending September 30, 2016 and 2015, the USO recognized $516,002 and $205,155, respectively.

The change in current year from the prior year is due primarily to an updated valuation of the RDU lease reflecting the increased space provided and the current fair market value of the donation.

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, 2016 and 2015, the USO recognized in-kind donations of $2,626,828 and $2,577,291, respectively, which includes the value of donated facilities discussed in the note above.

EVALUATION OF SUBSEQUENT EVENTS

The USO has evaluated subsequent events through May 10, 2017, the date which the financial statements were available to be issued.

INVESTMENTS

Investments as of September 30, 2016, are summarized as follows:

	Unrestricted	Permanently Restricted	Total
Fair Value	$ 192,983	$ 122,400	$ 315,383
Carrying Value	$ 192,983	$ 122,400	$ 315,383

Investments as of September 30, 2015, are summarized as follows:

	Unrestricted	Permanently Restricted	Total
Fair Value	$ 151,321	$ 87,823	$ 239,144
Carrying Value	$ 151,321	$ 87,823	$ 239,144

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended September 30, 2016:

	Unrestricted	Permanently Restricted	Total
Realized and Unrealized Investment Income	$ (9,392)	$ (3,637)	$ (13,029)

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended September 30, 2014:

	Unrestricted	Permanently Restricted	Total
Realized and Unrealized Investment Income	$ 12,621	$ 9,577	$ 22,198

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.

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, 2016.

Endowments: Valued at the fair market value as reported on the statements of the endowment manager.

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.

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, 2016 and 2015.

	2016			
	Level 1	Level 2	Level 3	Total
Investments*				
Equities	$ -	$ -	$ 315,383	$ 315,383

	2015			
	Level 1	Level 2	Level 3	Total
Investments*				
Equities	$ -	$ -	$ 239,144	$ 239,144

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

DEFINED CONTRIBUTION PLAN

The USO matches an employee defined contribution retirement plan. For the years ending September 30, 2016 and 2015, the USO recognized match expense of $17,437 and $12,925, respectively.

PENDING LITIGATION

The USO was a defendant in two lawsuits. On October 16, 2016, the USO was dismissed with prejudice from both lawsuits.