USO of North Carolina, Inc.

FINANCIAL STATEMENTS

For the Years Ended September 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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

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Jacksonville, North Carolina
February 25, 2016

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USO of North Carolina, Inc.

STATEMENTS OF FINANCIAL POSITION

	September 30, 2015	September 30, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,029,158	$ 698,478
Cash and cash equivalents - restricted	-	200,976
Investments	-	1,580
Promises to give	66,064	234,693
Inventory (lower of cost or market)	18,117	21,108
Other assets	35,738	58,706
Total Current Assets	1,149,077	1,215,541
PROPERTY AND EQUIPMENT		
Land	31,102	31,102
Furniture and fixtures	190,148	179,348
Equipment and vehicles	691,447	643,725
	912,697	854,175
Accumulated depreciation	(560,416)	(430,904)
Total Property and Equipment	352,281	423,271
ENDOWMENTS	239,144	251,055
TOTAL ASSETS	$ 1,740,502	$ 1,889,867
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued payables	$ 145,062	$ 204,454
Deferred revenues	140,807	298,505
Total Current Liabilities	285,869	502,959
NET ASSETS		
Unrestricted	1,366,810	1,295,448
Temporarily restricted	-	-
Permanently restricted	87,823	91,460
Total Net Assets	1,454,633	1,386,908
TOTAL LIABILITIES AND NET ASSETS	$ 1,740,502	$ 1,889,867

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, 2015	2014
UNRESTRICTED NET ASSETS		
Unrestricted revenues, gains and other support		
Contributions and grants	$ 4,923,872	$ 5,444,705
Program service fees	55,378	52,810
Net unrealized and realized gains (losses) from long-term investments	(13,569)	12,720
Interest and investment income	7,491	1,418
Unrestricted revenues/gains	4,973,172	5,511,653
Net assets released from restrictions		
Building lease expense	-	15,500
Total unrestricted revenues/gains and other support	4,973,172	5,527,153
Expenses		
Program services	4,402,653	4,554,027
Supporting services	235,675	237,761
Fundraising services	263,482	380,370
Total expenses	4,901,810	5,172,158
INCREASE IN UNRESTRICTED NET ASSETS	71,362	354,995
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	1,295,448	940,453
UNRESTRICTED NET ASSETS, END OF YEAR	$ 1,366,810	$ 1,295,448
TEMPORARILY RESTRICTED NET ASSETS		
Net assets released from restrictions	$ -	$ (15,500)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	(15,500)
TEMPORARILY RESTRICTED NET ASSET, BEGINNING OF YEAR	-	15,500
TEMPORARILY RESTRICTED NET ASSETS, END OF YEAR	$ -	$ -

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, 2015	2014
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	$ -	$ 44,931
Net unrealized and realized gains (losses) on long-term investments	(5,667)	4,368
Interest and investment income	2,030	1,229
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	(3,637)	50,528
PERMANENTLY RESTRICTED NET ASSET, BEGINNING OF YEAR	91,460	40,932
PERMANENTLY RESTRICTED NET ASSETS, END OF YEAR	$ 87,823	$ 91,460
INCREASE IN NET ASSETS	67,725	390,023
NET ASSETS, BEGINNING OF YEAR	1,386,908	996,885
NET ASSETS, END OF YEAR	$ 1,454,633	$ 1,386,908

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, 2015	Total For the Years Ended September 30, 2014
Compensation	$ 891,745	$ 75,953	$ 56,145	$ 1,023,843	$ 1,001,164
Employee benefits	97,721	5,383	4,735	107,839	103,437
Payroll taxes	77,167	4,290	4,290	85,747	88,840
Occupancy					
Building rent and utilities	183,901	34,482	11,494	229,877	211,332
Insurance-other	15,439	5,146	-	20,585	21,990
Equipment					
Equipment repair and rental	12,277	647	-	12,924	10,319
Depreciation	97,133	32,379	-	129,512	135,096
Office expenses	4,282	15,981	297	20,560	20,798
Snack bar and gift shop supplies	16,611	-	-	16,611	19,822
Telephone	41,080	4,829	2,415	48,324	39,433
Cable	7,476	-	-	7,476	7,688
Program supplies	133,904	-	-	133,904	134,407
Professional fees	-	19,970	-	19,970	42,752
Advertising	39,275	7,366	2,457	49,098	45,192
Travel	75,749	11,585	1,783	89,117	83,843
Dues and memberships	-	8,382	-	8,382	8,219
Special projects expenses	2,681,868	-	177,991	2,859,859	3,138,180
Bank charges	-	3,545	-	3,545	5,985
Worker's compensation	6,416	3,209	-	9,625	11,943
Miscellaneous	20,609	2,528	1,875	25,012	41,718
	$ 4,402,653	$ 235,675	$ 263,482	$ 4,901,810	$ 5,172,158

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, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 67,725	$ 390,023
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	129,512	135,096
Donated property and equipment in contributions	(14,522)	(31,421)
Loss on disposal of fixed assets	-	12,329
Interest and dividends from long-term investments	(6,207)	(3,245)
Net unrealized and realized gains short-term investments	-	(135)
Net unrealized and realized gains long-term investments	19,236	(15,192)
(Increase) Decrease in operating assets:		
Promises to give	168,629	(114,128)
Inventory	2,991	7,559
Other assets	22,968	5,056
Increase (Decrease) in operating liabilities:		
Accrued payables	(59,392)	(53,851)
Deferred revenues	(157,698)	12,813
NET CASH PROVIDED BY OPERATING ACTIVITIES	173,242	344,904
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	1,466	-
Proceeds from sale of equipment	-	10,000
Purchase of investments	(1,004)	(77,931)
Purchase of fixed assets	(44,000)	(124,813)
NET CASH USED BY INVESTING ACTIVITIES	(43,538)	(192,744)
NET INCREASE IN CASH AND CASH EQUIVALENTS	129,704	152,160
BEGINNING CASH AND CASH EQUIVALENTS	899,454	747,294
ENDING CASH AND CASH EQUIVALENTS	$ 1,029,158	$ 899,454

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.

At September 30, 2014, $200,976 in cash was restricted for spending on educational programs. There were no restrictions on cash at September 30, 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 2015, 2014 and 2013 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, 2015 was $87,823. 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, 2015 was $151,321. 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, 2015 and 2014, the fees were $2,705 and $2,356, respectively.

Endowment Funds (Continued)

	Unrestricted	Permanently Restricted	Total
Endowment net assets, September 30, 2013	$ 113,754	$ 40,933	$ 154,687
Contributions	33,000	44,931	77,931
Investment income	2,016	1,229	3,245
Net appreciation	10,825	4,367	15,192
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

SCHEDULE OF CASH AND CASH EQUIVALENTS

	September 30, 2015	September 30, 2014
Cash on hand	$ 469	$ 3,234
Undeposited funds	191,685	-
Cash in bank - checking	375,724	436,087
Cash in bank - savings	461,280	460,133
Certificate of deposit	-	-
	$ 1,029,158	$ 899,454

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, 2015	September 30, 2014
Prepaid expenses	$ 35,738	$ 58,706
	$ 35,738	$ 63,762

ACCRUED PAYABLES

Accrued payables consisted of the following:

	September 30, 2015	September 30, 2014
Accounts payable	$ 26,006	$ 97,128
Payroll liabilities	56,955	54,096
Accrued vacation	62,101	53,230
	$ 145,062	$ 204,454

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, 2015, the USO maintained $595,825 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, 2015 and 2014, the USO recognized $205,155 and $186,883, respectively.

	September 30, 2015	September 30, 2014
Net present value of lease at beginning of year	$ -	$ 15,500
Value of rents expired during the year	-	(15,500)
Net present value of lease at end of the year	$ -	$ 15,500

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, 2015 and 2014, the USO recognized in-kind donations of $2,577,291 and $2,996,397, respectively, which includes the value of donated facilities discussed in the note above.

EVALUATION OF SUBSEQUENT EVENTS

The USO has evaluated subsequent events through February 25, 2016, the date which the financial statements were available to be issued.

INVESTMENTS

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

Investments as of September 30, 2014, are summarized as follows:

	Unrestricted	Permanently Restricted	Total
Fair Value	$ 161,175	$ 91,460	$ 252,635
Carrying Value	$ 161,175	$ 91,460	$ 252,635

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended September 30, 2015:

	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	$ 13,107	$ 5,597	$ 18,704

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, 2015.

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, 2015 and 2014.

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

	2014			
	Level 1	Level 2	Level 3	Total
Investments*				
Equities	$ 1,580	$ -	$ 251,055	$ 252,635

*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, 2015 and 2014, the USO recognized match expense of $12,925 and $11,405, respectively.

PENDING LITIGATION

The USO is currently a defendant in two lawsuits. Management of the USO does not believe the USO has any liability connected to the incident and has engaged an attorney to defend the USO in both cases. After consulting with the attorney, management believes the USO has a strong liability defenses in both cases and they believe the USO has adequate insurance coverage to cover any potential liability that may arise. Based on this, management does not consider recording a related liability necessary.