

**USO NORTHWEST**

FINANCIAL REPORT

DECEMBER 31, 2013

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
USO Northwest  
Seattle, Washington

We have audited the accompanying financial statements of USO Northwest, which comprise the statements of financial position as of December 31, 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; 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. 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 USO Northwest as of December 31, 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.

*Peterson Sullivan LLP.*

August 20, 2014

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**USO NORTHWEST**

STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

| ASSETS   | <u>2013</u>                | <u>2012</u>                |
|--|----------------------------|----------------------------|
| Current Assets                                     |                            |                            |
| Cash and cash equivalents                          | \$ 708,038                 | \$ 412,720                 |
| Certificates of deposit                            |                            | 100,968                    |
| Contributions receivable, net                      | 30,325                     | 49,031                     |
| Other current assets                               | <u>13,875</u>              | <u>2,007</u>               |
| Total current assets                               | 752,238                    | 564,726                    |
| Cash Restricted for Investment in Long-term Assets | 1,111,472                  | 15,350                     |
| Property and Equipment                             |                            |                            |
| Furniture and equipment                            | 248,098                    | 250,398                    |
| Leasehold improvements                             | <u>445,090</u>             | <u>388,061</u>             |
|  | 693,188                    | 638,459                    |
| Less: Accumulated depreciation                     | <u>(175,930)</u>           | <u>(123,069)</u>           |
|  | 517,258                    | 515,390                    |
| Construction in progress                           | <u>57,833</u>              |                            |
|  | <u>575,091</u>             | <u>515,390</u>             |
| Total assets                                       | <u><u>\$ 2,438,801</u></u> | <u><u>\$ 1,095,466</u></u> |
| <b>LIABILITIES AND NET ASSETS</b>                  |                            |                            |
| Current Liabilities                                |                            |                            |
| Accounts payable                                   | \$ 25,388                  | \$ 17,450                  |
| Accrued payroll and related liabilities            | <u>26,217</u>              | <u>29,127</u>              |
| Total current liabilities                          | 51,605                     | 46,577                     |
| Net Assets   |                            |                            |
| Unrestricted                                       | 1,275,724                  | 1,033,539                  |
| Temporarily restricted                             | <u>1,111,472</u>           | <u>15,350</u>              |
| Total net assets                                   | <u>2,387,196</u>           | <u>1,048,889</u>           |
| Total liabilities and net assets                   | <u><u>\$ 2,438,801</u></u> | <u><u>\$ 1,095,466</u></u> |

See Notes to Financial Statements

**USO NORTHWEST**

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2013 and 2012

|  | 2013             |                        |                  | 2012             |                        |                  |
|--|------------------|------------------------|------------------|------------------|------------------------|------------------|
|  | Unrestricted     | Temporarily Restricted | Total            | Unrestricted     | Temporarily Restricted | Total            |
| Support and Revenue                          |                  |                        |                  |                  |                        |                  |
| Public contributions - cash                  | \$ 546,523       | \$ -                   | \$ 546,523       | \$ 450,194       | \$ -                   | \$ 450,194       |
| Public contributions - noncash               |                  |                        |                  |                  |                        |                  |
| Rent   | 582,599          |                        | 582,599          | 204,231          |                        | 204,231          |
| Materials and services                       | 1,331,637        |                        | 1,331,637        | 732,118          |                        | 732,118          |
| United Way contributions                     | 12,719           |                        | 12,719           | 10,197           |                        | 10,197           |
| Individual contributions through United Way  | 31,132           |                        | 31,132           | 49,504           |                        | 49,504           |
| Special event revenues                       | 920,614          |                        | 920,614          | 1,059,149        |                        | 1,059,149        |
| Special event direct expenses                | (308,312)        |                        | (308,312)        | (471,705)        |                        | (471,705)        |
| Investment income (loss)                     | 1,909            |                        | 1,909            | (243)            |                        | (243)            |
| Other income                                 | 1,947            |                        | 1,947            | 567              |                        | 567              |
| Loss on disposal of property and equipment   | (3,500)          |                        | (3,500)          |                  |                        |                  |
| Net assets released from restrictions        | 15,350           | (15,350)               |                  |                  |                        |                  |
| <b>Total support and revenue</b>             | <b>3,132,618</b> | <b>(15,350)</b>        | <b>3,117,268</b> | <b>2,034,012</b> |                        | <b>2,034,012</b> |
| Expenses                                     |                  |                        |                  |                  |                        |                  |
| Program services                             | 2,655,937        |                        | 2,655,937        | 1,819,569        |                        | 1,819,569        |
| Management and general                       | 171,252          |                        | 171,252          | 114,622          |                        | 114,622          |
| Fundraising                                  | 104,439          |                        | 104,439          | 65,789           |                        | 65,789           |
| <b>Total expenses</b>                        | <b>2,931,628</b> |                        | <b>2,931,628</b> | <b>1,999,980</b> |                        | <b>1,999,980</b> |
| Change in net assets before capital campaign | 200,990          | (15,350)               | 185,640          | 34,032           |                        | 34,032           |
| Capital Campaign                             |                  |                        |                  |                  |                        |                  |
| Capital campaign contributions               | 148,038          | 1,111,472              | 1,259,510        |                  | 15,350                 | 15,350           |
| Direct capital campaign expenses             | (106,843)        |                        | (106,843)        |                  |                        |                  |
| <b>Change in net assets</b>                  | <b>242,185</b>   | <b>1,096,122</b>       | <b>1,338,307</b> | <b>34,032</b>    | <b>15,350</b>          | <b>49,382</b>    |
| Net Assets, beginning of year                | 1,033,539        | 15,350                 | 1,048,889        | 999,507          |                        | 999,507          |
| Net Assets, end of year                      | \$ 1,275,724     | \$ 1,111,472           | \$ 2,387,196     | \$ 1,033,539     | \$ 15,350              | \$ 1,048,889     |

See Notes to Financial Statements

**USO NORTHWEST**

STATEMENTS OF FUNCTIONAL EXPENSES  
For the Years Ended December 31, 2013 and 2012

|   | 2013                |                        |                   |                     | 2012                |                        |                  |                     |
|---|---------------------|------------------------|-------------------|---------------------|---------------------|------------------------|------------------|---------------------|
|   | Program Services    | Management and General | Fundraising       | Total               | Program Services    | Management and General | Fundraising      | Total               |
| Salaries, related taxes, and benefits   | \$ 313,496          | \$ 161,101             | \$ 43,963         | \$ 518,560          | \$ 384,037          | \$ 78,875              | \$ 51,407        | \$ 514,319          |
| In-kind materials   | 1,203,788           |                        | 164,711           | 1,368,499           | 732,679             |                        | 125,470          | 858,149             |
| Rent  | 582,599             |                        |                   | 582,599             | 204,231             |                        |                  | 204,231             |
| Event rental and catering   |                     |                        | 202,332           | 202,332             |                     |                        | 346,235          | 346,235             |
| Food expenses   | 133,598             |                        |                   | 133,598             | 111,144             |                        |                  | 111,144             |
| Program expenses  | 108,415             |                        | 9                 | 108,424             | 159,882             | 775                    | 8,369            | 169,026             |
| Depreciation  | 64,967              |                        |                   | 64,967              | 32,339              |                        |                  | 32,339              |
| Bad debt  | 45,945              |                        |                   | 45,945              | 32,762              |                        |                  | 32,762              |
| Licenses, fees, and permits   | 35,279              | 1,383                  |                   | 36,662              | 19,971              | 592                    |                  | 20,563              |
| Consulting and marketing  | 26,256              | 141                    |                   | 26,397              | 31,510              | 10,878                 | 1,522            | 43,910              |
| Mileage   | 22,881              | 2,738                  | 452               | 26,071              | 22,876              | 870                    | 2,125            | 25,871              |
| Telephone   | 15,415              |                        | 223               | 15,638              | 16,773              | 1,236                  | 802              | 18,811              |
| Printing and photocopying   | 13,610              | 577                    | 988               | 15,175              | 12,983              | 1,691                  | 64               | 14,738              |
| Office supplies   | 13,004              | 1,766                  | 73                | 14,843              | 14,845              | 6,477                  | 374              | 21,696              |
| Meetings and conventions  | 9,512               | 1,201                  |                   | 10,713              | 4,317               | 1,507                  | 1,069            | 6,893               |
| Insurance   | 8,369               | 1,313                  |                   | 9,682               | 6,494               | 670                    |                  | 7,164               |
| Professional fees   | 9,200               |                        |                   | 9,200               | 10,938              | 3,331                  | 57               | 14,326              |
| Postage and shipping  | 4,949               | 1,032                  |                   | 5,981               | 6,076               | 986                    |                  | 7,062               |
| Miscellaneous   | 44,654              |                        |                   | 44,654              | 15,712              | 6,734                  |                  | 22,446              |
| <b>Total expenses</b>   | <b>2,655,937</b>    | <b>171,252</b>         | <b>412,751</b>    | <b>3,239,940</b>    | <b>1,819,569</b>    | <b>114,622</b>         | <b>537,494</b>   | <b>2,471,685</b>    |
| Less expenses netted with revenue on the statements of activities                 |                     |                        | (308,312)         | (308,312)           |                     |                        | (471,705)        | (471,705)           |
| <b>Total expenses included in expense section of the statements of activities</b> | <b>\$ 2,655,937</b> | <b>\$ 171,252</b>      | <b>\$ 104,439</b> | <b>\$ 2,931,628</b> | <b>\$ 1,819,569</b> | <b>\$ 114,622</b>      | <b>\$ 65,789</b> | <b>\$ 1,999,980</b> |

See Notes to Financial Statements

**USO NORTHWEST**

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2013 and 2012

|  | 2013           | 2012             |
|--|----------------|------------------|
| Cash Flows from Operating Activities   |                |                  |
| Change in net assets   | \$ 1,338,307   | \$ 49,382        |
| Adjustments to reconcile change in net assets<br>to net cash flows from operating activities |                |                  |
| Depreciation expense   | 64,967         | 32,339           |
| Contributions restricted for purchase of long-term assets                                    | (1,259,510)    | (15,350)         |
| Donated property and equipment   | (69,118)       |                  |
| Loss on disposal of property and equipment   | 3,500          |                  |
| Change in operating assets and liabilities   |                |                  |
| Contributions receivable   | 18,706         | (2,385)          |
| Other current assets   | (11,868)       |                  |
| Accounts payable   | 7,938          | (406)            |
| Accrued payroll and related liabilities  | (2,910)        | 8,378            |
|  | 90,012         | 71,958           |
| Net cash flows from operating activities   | 90,012         | 71,958           |
| Cash Flows from Investing Activities   |                |                  |
| Purchase of property and equipment   | (59,050)       | (383,334)        |
| Proceeds from sale of certificates of deposit  | 100,968        | 201,471          |
| Increase in cash restricted for investment in long-term assets                               | (1,096,122)    | (15,350)         |
|  | (1,054,204)    | (197,213)        |
| Net cash flows from investing activities   | (1,054,204)    | (197,213)        |
| Cash Flows from Financing Activity   |                |                  |
| Contributions restricted for purchase of long-term assets                                    | 1,259,510      | 15,350           |
|  | 1,259,510      | 15,350           |
| <b>Net change in cash and cash equivalents</b>   | <b>295,318</b> | <b>(109,905)</b> |
| Cash and cash equivalents, beginning of year   | 412,720        | 522,625          |
|  | 412,720        | 522,625          |
| Cash and cash equivalents, end of year   | \$ 708,038     | \$ 412,720       |

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Organization and Significant Accounting Policies

#### Organization

USO Northwest ("USO") is a nonprofit organization with the mission to serve the social, welfare, educational, and entertainment needs of the members of the armed forces, and to participate in the USO policies and procedures to the extent authorized by National USO.

The programs of USO consist of the operation of two airport centers, one at the Seattle-Tacoma International Airport ("SeaTac") and one at Joint Base Lewis McChord ("JBLM"), and a mobile unit. The SeaTac facilities are provided to USO at no cost by the Port of Seattle. The JBLM facilities are provided at no cost by the Corps of Engineers. Each airport center provides beverages and snacks, as well as facilities for resting, watching television, reading, and other activities. The equipment at each center is provided by donation and purchase. The SeaTac facilities operate 24 hours a day, 7 days a week based on volunteer staffing availability. The JBLM facilities operate 12 hours a day, 6 days a week, also with the support of volunteer staff. The Mobile Canteen unit was provided by donation and provides entertainment and food preparation for troops and their families during deployments and homecomings at locations other than the two airport centers.

In 2012, the USO began a capital campaign to provide support for the USO's remodel of its SeaTac facilities (see Note 2). USO entered into a contract with a third party for the renovation of the center at SeaTac. The value of the contract is approximately \$1,353,000. The renovations began in late 2013, with \$57,833 in construction in progress at December 31, 2013. The majority of the renovation is expected to be in 2014, with project completion expected in early 2015. One foundation and one corporation accounted for 48% of total public contributions to the campaign in 2013. One individual accounted for 65% of total public contributions to the campaign in 2012.

Subsequent to December 31, 2013, in February 2014, USO signed an agreement with the Port of Portland to lease space to provide activities that are similar to its SeaTac site at the Portland International Airport. The facilities will be provided to the USO at no cost by the Port of Portland on a month-to-month basis.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimates that were used.



## **Financial Statement Presentation**

USO is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The classes of net assets are described as follows:

- Unrestricted amounts are those currently available at the discretion of the Board of Directors for use in USO's operations.
- Temporarily restricted amounts are those which are stipulated by donors for specific operating purposes or time periods. If temporarily restricted contributions are used for their restricted purpose in the same year as received, they are classified as unrestricted contributions. Temporarily restricted net assets amounted to \$1,111,472 and \$15,350 as of December 31, 2013, and 2012, respectively, and consists of contributions restricted for the capital campaign and other improvements.
- Permanently restricted amounts are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted. There were no permanently restricted net assets as of December 31, 2013 or 2012, so this class of net assets is not shown in these financial statements.

## **Cash and Cash Equivalents / Cash Restricted for Investment in Long-term Assets**

Highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Cash and cash equivalents consist of the following at December 31:

|                    | <u>2013</u>       | <u>2012</u>       |
|--------------------|-------------------|-------------------|
| Cash - checking    | \$ 326,428        | \$ 132,292        |
| Money market funds | 381,610           | 280,428           |
|                    | <u>\$ 708,038</u> | <u>\$ 412,720</u> |

Cash restricted for investment in long-term assets (the capital campaign and other improvements) is held in a money market account at December 31, 2013.

At times, USO has cash in financial institutions in excess of federally insured limits.

## **Certificates of Deposit**

Certificates of deposit are recorded at cost plus accrued interest, and represent investments with original maturities of longer than three months. Certificates of deposit had interest rates between 1.00% and 1.34%.

## **Contributions Receivable**

Contributions receivable consists of pledged donations and are stated at the pledged amount less an allowance for doubtful accounts. At December 31, 2013, 10% of contributions receivable was due from one individual. At December 31, 2012, 16% of contributions receivable was due from two organizations and 21% of contributions receivable was due from one related party organization.

Management reviews the collectibility of contributions receivable on a periodic basis and determines the amount estimated to be uncollectible. A reserve for doubtful accounts is then established. The USO charges off receivables against the allowance when management determines that a receivable is not collectible.

Contributions receivable consist of the following at December 31:

|  | <u>2013</u>      | <u>2012</u>      |
|--|------------------|------------------|
| Contributions receivable               | \$ 59,730        | \$ 66,793        |
| Less - allowance for doubtful accounts | <u>(29,405)</u>  | <u>(17,762)</u>  |
| Contributions receivable, net          | <u>\$ 30,325</u> | <u>\$ 49,031</u> |

### **Property and Equipment**

Property and equipment are recorded at cost or, in the case of donated property, at the estimated fair value at the date of donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is also calculated using the straight-line method over the shorter of the improvement's useful life or the anticipated lease term (it is anticipated that USO has long-term relationships with its landlords). USO's policy is to capitalize an asset with a cost of at least \$1,000 and an estimated useful life of at least two years.

### **Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated.

### **Income Taxes**

USO is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. USO's federal tax returns are open to inspection by the Internal Revenue Service for the last three years.

### **Subsequent Events**

Management of USO has evaluated subsequent events through the date on which these financial statements were available to be issued, which is the same date as the independent auditors' report.

## **Note 2. Support**

### **Cash Contributions**

Contributions from individuals and corporations provide a majority of the cash contributions to support USO's programs. One foundation and one corporation accounted for 56% of total public contributions of cash in 2013, and two corporations accounted for 29% of total public contributions of cash in 2012.

The United Way agencies of King, Pierce, and other counties provide funding (or coordinate the collection of funding) for USO. USO makes annual budget presentations to the United Way agencies of King and Pierce Counties, and the budgets must be accepted by the United Way before support is provided.

### **In-Kind Contributions**

Food, supplies, entertainment items, materials, and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt. The most significant individual in-kind donation (non-rent) in 2013 and 2012 was for Girl Scout cookies valued at \$526,368 and \$332,592, respectively.

USO receives additional support in the form of donated facilities at SeaTac and JBLM. The Seattle Port Authority at SeaTac provided the following:

| <u>Facilities</u> | <u>Description</u>         |
|-------------------|----------------------------|
| • Airport Center  | 2,663 square feet of space |
| • Store Room Area | 136 square feet of space   |
| • Office Space    | 610 square feet of space   |
| • Parking Stalls  | 4 stalls per year          |

The Corps of Engineers at JBLM provide the following:

| <u>Facilities</u> | <u>Description</u>         |
|-------------------|----------------------------|
| • Airport Center  | 2,760 square feet of space |

In total, these facilities were valued at \$582,599 and \$204,231 in 2013 and 2012, respectively. The increase in value is primarily due to an increase in rental rates used to calculate the donation at SeaTac.

In July 2013, USO signed a ten-year lease with the Seattle Port Authority at SeaTac to continue leasing its current donated facilities. The lease includes a commitment from USO to make minimum leasehold improvements of not less than \$1.2 million. The lease payments are \$10 per year beginning upon lease commencement date, which is the same date the leasehold improvements are completed. This lease will result in a significant in-kind rent donation upon execution of the agreement. As of December 31, 2013, this donation has not been recorded because it is conditional upon completion of the SeaTac renovation (see Note 1) and the approval of the Seattle Port Authority to execute the lease, which is expected to be in early 2015.

USO benefits from thousands of hours of volunteer effort at both the SeaTac and JBLM centers. Generally, these volunteer hours are not reflected in the financial statements because they do not meet the accounting requirements for recognition.

### **Note 3. Related Party Transactions**

In 2013 and 2012, USO received \$105,068 and \$84,000, respectively, in cash contributions from USO World Headquarters ("USO-WHQ"). USO is affiliated with USO-WHQ as a chartered member.

### **Note 4. Employee Retirement Plan**

USO has a 401(k) retirement plan for the benefit of all eligible employees. During the year ended December 31, 2012, USO began matching employee contributions up to 4%. The USO's contributions to the plan were \$6,662 and \$6,432 during years ended December 31, 2013 and 2012, respectively.