

USO NORTHWEST

FINANCIAL REPORT

DECEMBER 31, 2014

C O N T E N T S

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES.....	3
STATEMENTS OF FUNCTIONAL EXPENSES.....	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6 - 10

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, 2014 and 2013, 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, 2014 and 2013, 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

October 1, 2015

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USO NORTHWEST

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and cash equivalents	\$ 707,981	\$ 708,038
Investments	38,728	13,875
Contributions receivable, net	4,542	30,325
Rent receivable, current portion	<u>989,210</u>	<u></u>
Total current assets	1,740,461	752,238
Cash Restricted for Investment in Long-term Assets	68,007	1,111,472
Rent receivable, long-term portion	7,193,486	
Property and Equipment		
Furniture and equipment	156,248	131,000
Vehicles	154,511	117,098
Leasehold improvements	<u>514,396</u>	<u>445,090</u>
	825,155	693,188
Less: Accumulated depreciation	<u>(251,378)</u>	<u>(175,930)</u>
	573,777	517,258
Construction in progress	<u>1,554,670</u>	<u>57,833</u>
	<u>2,128,447</u>	<u>575,091</u>
Total assets	<u>\$ 11,130,401</u>	<u>\$ 2,438,801</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 1,626	\$ 25,388
Accrued payroll and related liabilities	<u>36,927</u>	<u>26,217</u>
Total current liabilities	38,553	51,605
Net Assets		
Unrestricted	2,833,131	1,275,724
Temporarily restricted	<u>8,258,717</u>	<u>1,111,472</u>
Total net assets	<u>11,091,848</u>	<u>2,387,196</u>
Total liabilities and net assets	<u>\$ 11,130,401</u>	<u>\$ 2,438,801</u>

See Notes to Financial Statements

USO NORTHWEST

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Public contributions - cash	\$ 674,961	\$ 12,500	\$ 687,461	\$ 538,023	\$ -	\$ 538,023
Public contributions - noncash						
Rent	1,583,077	8,182,696	9,765,773	582,599		582,599
Materials and services	1,447,766		1,447,766	1,331,637		1,331,637
United Way contributions	21,623		21,623	12,719		12,719
Individual contributions through United Way	28,679		28,679	31,132		31,132
Special event revenues	697,393		697,393	929,114		929,114
Special event direct expenses	(200,076)		(200,076)	(308,312)		(308,312)
Investment income	2,874		2,874	1,909		1,909
Other income	2,372		2,372	(1,553)		(1,553)
Net assets released from restrictions				15,350	(15,350)	
Total support and revenue	4,258,669	8,195,196	12,453,865	3,132,618	(15,350)	3,117,268
Expenses						
Program services	3,596,898		3,596,898	2,655,937		2,655,937
Management and general	288,220		288,220	171,252		171,252
Fundraising	145,795		145,795	104,439		104,439
Total expenses	4,030,913		4,030,913	2,931,628		2,931,628
Change in net assets before capital campaign	227,756	8,195,196	8,422,952	200,990	(15,350)	185,640
Capital Campaign						
Capital campaign contributions	306,861		306,861	148,038	1,111,472	1,259,510
Direct capital campaign fundraising expenses	(25,161)		(25,161)	(106,843)		(106,843)
Net assets released from restrictions	1,047,951	(1,047,951)				
Change in net assets	1,557,407	7,147,245	8,704,652	242,185	1,096,122	1,338,307
Net Assets, beginning of year	1,275,724	1,111,472	2,387,196	1,033,539	15,350	1,048,889
Net Assets, end of year	\$ 2,833,131	\$ 8,258,717	\$ 11,091,848	\$ 1,275,724	\$ 1,111,472	\$ 2,387,196

See Notes to Financial Statements

USO NORTHWEST

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2014 and 2013

	2014				2013			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries, related taxes, and benefits	\$ 230,590	\$ 183,242	\$ 145,795	\$ 559,627	\$ 313,496	\$ 161,101	\$ 43,963	\$ 518,560
Rent	1,583,107			1,583,107	582,599			582,599
In-kind materials	1,305,705			1,305,705	1,203,788		164,711	1,368,499
Event rental and catering			200,076	200,076			202,332	202,332
Food expenses	152,790			152,790	133,598			133,598
Program expenses	109,427			109,427	108,415		9	108,424
Depreciation	75,448			75,448	64,967			64,967
Interim staff		61,535		61,535				
Professional fees		23,286		23,286	9,200			9,200
Mileage	16,448	4,602		21,050	22,881	2,738	452	26,071
Consulting and marketing	17,188	141		17,329	26,256	141		26,397
Telephone	6,956	9,824		16,780	15,415		223	15,638
Insurance	14,235			14,235	8,369	1,313		9,682
Office supplies	3,131	2,230		5,361	13,004	1,766	73	14,843
Postage and shipping	4,058	101		4,159	4,949	1,032		5,981
Meetings and conventions	3,075	642		3,717	9,512	1,201		10,713
Printing and photocopying	560	1,954		2,514	13,610	577	988	15,175
Licenses, fees, and permits	1,577	663		2,240	35,279	1,383		36,662
Bad debt					45,945			45,945
Miscellaneous	72,603			72,603	44,654			44,654
Total expenses	3,596,898	288,220	345,871	4,230,989	2,655,937	171,252	412,751	3,239,940
Less expenses netted with revenue on the statements of activities			(200,076)	(200,076)			(308,312)	(308,312)
Total expenses included in expense section of the statements of activities	\$ 3,596,898	\$ 288,220	\$ 145,795	\$ 4,030,913	\$ 2,655,937	\$ 171,252	\$ 104,439	\$ 2,931,628

See Notes to Financial Statements

USO NORTHWEST

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ 8,704,652	\$ 1,338,307
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Gain on investments	(2,582)	
Depreciation expense	75,448	64,967
Contributions restricted for purchase of long-term assets	(306,861)	(1,259,510)
Donated stock	(35,012)	
Donated rent	(8,182,696)	
Donated property and equipment	(142,025)	(69,118)
Loss on disposal of property and equipment		3,500
Change in operating assets and liabilities		
Contributions receivable	25,783	18,706
Other current assets		(11,868)
Accounts payable	(23,762)	7,938
Accrued payroll and related liabilities	10,710	(2,910)
	123,655	90,012
Net cash flows from operating activities		
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,486,779)	(59,050)
Proceeds from sale of investments	12,741	100,968
Change in cash restricted for investment in long-term assets	1,043,465	(1,096,122)
	(430,573)	(1,054,204)
Net cash flows from investing activities		
Cash Flows from Financing Activity		
Contributions restricted for purchase of long-term assets	306,861	1,259,510
	(57)	295,318
Net change in cash and cash equivalents		
Cash and cash equivalents, beginning of year	708,038	412,720
Cash and cash equivalents, end of year	\$ 707,981	\$ 708,038

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 USO, Inc. (the national headquarters).

The programs of USO consist of the operation at three airport centers, one at the Seattle-Tacoma International Airport ("SeaTac"), one at the Portland International Airport ("PDX") and one at Joint Base Lewis McChord ("JBLM"), and two mobile units. The SeaTac facilities are provided to USO at no cost by the Port of Seattle and the PDX facilities are provided to USO at no cost by the Port of Portland. The JBLM facilities are provided at no cost by the Army 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 PDX facilities operates 7 days a week, 16 hours a day with the support of volunteer staff and JBLM facilities operate 12 hours a day, 6 days a week, also with the support of volunteer staff. The Mobile Canteen units were provided by donation and provide entertainment and food preparation for troops and their families during deployments and homecomings at locations other than the three 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). The renovations began in late 2013, with \$1,554,670 in construction in progress at December 31, 2014. The new SeaTac facility opened in early 2015. One corporation accounted for 17% of total campaign contributions in 2014. One foundation and one corporation accounted for 48% of total capital campaign contributions in 2013.

During 2014, USO opened a new facility in the Portland International Airport. Services provided at this facility are similar to those offered at the SeaTac facility.

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 that 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 consisted of the following as of December 31:

	<u>2014</u>	<u>2013</u>
SeaTac rent - time restricted	\$ 8,182,696	\$ -
Capital campaign	63,521	1,111,472
Other time restricted	12,500	
	<u>\$ 8,258,717</u>	<u>\$ 1,111,472</u>

- 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, 2014 or 2013, so this class of net assets is not shown in these financial statements.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Investments are recorded at fair value 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>2014</u>	<u>2013</u>
Cash - checking	\$ 313,488	\$ 326,428
Money market funds	<u>394,493</u>	<u>381,610</u>
	<u>\$ 707,981</u>	<u>\$ 708,038</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, 2014 and 2013.

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

Investments

Investments are recorded at their fair values in the statements of financial position using Level 1 inputs (quoted prices on national exchanges). As of both December 31, 2014 and 2013, all investments consisted of stock held in one corporation (Starbucks). Gain/losses on investment sales are capitalized using the specific identification method.

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.

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>2014</u>	<u>2013</u>
Contributions receivable	\$ 15,232	\$ 59,730
Less - allowance for doubtful accounts	<u>(10,690)</u>	<u>(29,405)</u>
Contributions receivable, net	<u>\$ 4,542</u>	<u>\$ 30,325</u>

Rent Receivable

During 2014, SeaTac airport executed a new lease with USO. The lease has a ten year term, expiring in 2024, with yearly payments of \$10. Because the lease is at a below market rate, USO has recognized an in-kind donation for the fair value of the rent in excess of the actual rent to be paid. The rent receivable represents the entire contribution over the remaining term of the lease, discounted at 2.6%. As of December 31, 2014, management does not believe an allowance is necessary against this receivable. The amounts are due in the following periods ending December 31:

	<u>Rent Receivable</u>	<u>Discount (Interest Portion)</u>	<u>Total</u>
2015	\$ 989,210	\$ -	\$ 989,210
2016	989,210	25,068	964,142
2017	989,210	49,500	939,710
2018	989,210	73,314	915,896
2019	989,210	96,523	892,687
Thereafter	4,121,708	640,657	3,481,051
	<u>\$ 9,067,758</u>	<u>\$ 885,062</u>	<u>\$ 8,182,696</u>

Other facilities (PDX and JBLM) have contributed to USO, but these relationships are on a month-to-month basis.

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.

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 corporation accounted for 27% of total public contributions of cash in 2014, and one foundation and one corporation accounted for 56% of total public contributions of cash in 2013.

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 2014 and 2013 was for Girl Scout cookies valued at \$516,872 and \$526,368, respectively.

USO receives additional support in the form of donated facilities at SeaTac and JBLM. In total, these facilities were valued at \$1,583,077 and \$582,599 in 2014 and 2013, respectively. The increase in value is primarily due to USO's move in a new and larger space at SeaTac.

In addition, USO has an in-kind rent receivable from SeaTac of \$8,182,696 as of December 31, 2014. This receivable is related to the ten-year lease executed during 2014.

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 2014 and 2013, USO received \$186,041 and \$105,068, 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. USO matches employee contributions up to 4%. The USO's contributions to the plan were \$8,191 and \$6,662 during years ended December 31, 2014 and 2013, respectively.