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CERTIFIED PUBLIC  
ACCOUNTANT

**USO OF PENNSYLVANIA AND  
SOUTHERN NEW JERSEY, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2012**

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
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**For the year ended December 31, 2012**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
USO of Pennsylvania and Southern New Jersey, Inc.  
Philadelphia, Pennsylvania

### ***Report on the Financial Statements***

I have audited the accompanying financial statements of USO of Pennsylvania and Southern New Jersey, Inc. (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, cash flows and functional expenses for the year 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***

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

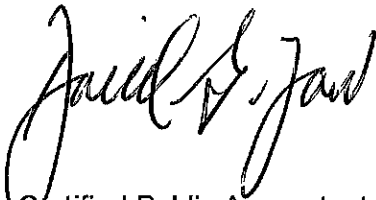
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USO of Pennsylvania and Southern New Jersey, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

I have previously audited USO of Pennsylvania and Southern New Jersey, Inc. 2011 financial statements, and my report dated June 20, 2012, expressed an unmodified opinion on those audited financial statements. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountant  
June 14, 2013

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2012**  
**(with comparative totals as of December 31, 2011)**

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash and equivalents	\$ 432,999	\$ 413,829
Contributions receivable	98,474	16,500
Prepaid expenses	15,230	24,134
Investment in marketable securities	244,856	115,140
<u>Property and equipment</u>		
Furniture and equipment	180,719	177,939
Leasehold improvements	<u>586,177</u>	<u>586,177</u>
Total property and equipment	766,896	764,116
Less: accumulated depreciation	<u>(260,850)</u>	<u>(207,667)</u>
Net property and equipment	<u>506,046</u>	<u>556,449</u>
Total assets	<u>\$ 1,297,605</u>	<u>\$ 1,126,052</u>
<u>Liabilities</u>		
Accrued expenses	24,901	28,798
Accrued payroll and benefits	<u>50,165</u>	<u>45,936</u>
Total liabilities	<u>75,066</u>	<u>74,734</u>
<u>Net assets</u>		
Unrestricted	<u>1,222,539</u>	<u>1,051,318</u>
Total net assets	<u>1,222,539</u>	<u>1,051,318</u>
Total liabilities and net assets	<u>\$ 1,297,605</u>	<u>\$ 1,126,052</u>

The accompanying notes are an integral part of these financial statements.

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**STATEMENT OF ACTIVITIES**  
**For the year ended December 31, 2012**  
**(with comparative totals for the year ended December 31, 2011)**

	<b>Unrestricted</b>	
	<b>2012</b>	<b>2011</b>
<u>Support and revenue</u>		
Grants and contributions	\$ 952,753	\$ 810,620
Fundraising events	300,076	262,753
Less: Costs of direct donor benefits	(109,292)	(94,909)
Miscellaneous	6,227	11,427
Interest and investment income	4,360	4,856
Gain (loss) on investments	2,414	(6,036)
Contributed facilities	477,372	477,372
Contributed food and supplies	454,421	314,132
	<u>2,088,331</u>	<u>1,780,215</u>
<u>Expenses</u>		
Program	1,443,359	1,393,291
Management and general	266,534	158,235
Fundraising	207,217	185,820
	<u>1,917,110</u>	<u>1,737,346</u>
Change in net assets	171,221	42,869
Net assets at beginning of year	<u>1,051,318</u>	<u>1,008,449</u>
Net assets at end of year	<u>\$ 1,222,539</u>	<u>\$ 1,051,318</u>

The accompanying notes are an integral part of these financial statements.

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2012  
(with comparative totals for the year ended December 31, 2011)

	<u>2012</u>	<u>2011</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 171,221	\$ 42,869
Adjustments to reconcile above change in net assets to net cash provided by operating activities:		
Depreciation	53,183	54,606
(Gain) loss on investment	(2,414)	6,036
<u>Changes in assets and liabilities</u>		
Prepaid expenses	8,904	(12,462)
Contributions receivable	(81,974)	(13,439)
Accrued expenses	(3,897)	27,005
Accrued payroll and benefits	4,228	38,334
Construction costs payable	-	(42,000)
Net cash provided by operating activities	<u>149,251</u>	<u>100,949</u>
<u>Cash flows from investing activities</u>		
Purchase of furniture and equipment	(2,779)	(18,746)
Purchases of marketable securities	(190,549)	(26,692)
Proceeds from sales of marketable securities	<u>63,247</u>	<u>-</u>
Net cash used in investing activities	<u>(130,081)</u>	<u>(45,438)</u>
Net increase in cash and equivalents	19,170	55,511
Cash and equivalents at beginning of year	<u>413,829</u>	<u>358,318</u>
Cash and equivalents at end of year	<u>\$ 432,999</u>	<u>\$ 413,829</u>

The accompanying notes are an integral part of these financial statements.

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended December 31, 2012  
(with comparative totals for the year ended December 31, 2011)

	Program	Management and General	Fund Raising	Total 2012	Total 2011
Salaries	\$ 218,025	\$ 109,996	\$ 120,178	\$ 448,199	\$ 439,523
Payroll taxes	18,003	9,083	9,924	37,010	38,837
Deferred compensation	1,535	4,603	9,207	15,345	14,430
Employee benefits	40,329	20,347	22,230	82,906	76,940
Total salaries and related expense	277,892	144,029	161,539	583,460	569,730
Accounting and audit	-	27,640	-	27,640	27,421
Advertising and marketing	3,224	1,627	1,778	6,629	-
Contributed facilities	429,635	47,737	-	477,372	477,372
Contributed food and supplies	454,421	-	-	454,421	314,132
Depreciation	47,865	5,318	-	53,183	54,606
Dues and subscriptions	5,809	2,931	3,201	11,941	2,442
Insurance	12,507	6,310	6,894	25,711	24,588
Office supplies and expense	22,317	11,259	12,302	45,878	38,264
Program food and supplies	150,675	-	-	150,675	152,409
Postage	5,633	2,842	3,105	11,580	15,803
Printing	3,156	1,592	1,739	6,487	10,252
Telephone	12,872	6,494	7,095	26,461	24,242
Travel	17,353	8,755	9,564	35,672	26,085
Total expenses	<u>\$ 1,443,359</u>	<u>\$ 266,534</u>	<u>\$ 207,217</u>	<u>\$ 1,917,110</u>	<u>\$ 1,737,346</u>

The accompanying notes are an integral part of these financial statements.



**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

Note 1 - General

USO of Pennsylvania and Southern New Jersey, Inc. (the Organization), also known as Liberty USO, is the Greater Philadelphia area's chartered affiliate in the worldwide USO organization. In appreciation of the selfless service and sacrifice of our troops and their families, Liberty USO delivers comfort, care and support to troops and their families who reside in or pass through our service areas in Pennsylvania and Southern New Jersey. The Organization was founded in 1942 and relies on support from the area's business community, private foundations and individuals.

Note 2 - Summary of Significant Accounting Policies

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization 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. As of December 31, 2012 the Organization had no temporarily or permanently restricted net assets.

Contributions Receivable

All contributions are reported as revenue in the net asset class (unrestricted, temporarily restricted or permanently restricted) appropriate to any donor restrictions on the gift at the time of receipt. The Organization uses the allowance method to determine uncollectible grants and contributions receivable. The allowance is based on prior years' experience and management's analysis of specific amounts due. All grants and contributions receivable are due within approximately one year and are expected to be fully realizable.

Contributed Services

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Functional Allocation of Expenses

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are charged directly to program, management and general, and fundraising categories based on specific identification. Indirect expenses have been allocated based on salary expenditures.

Statement of Cash Flows

The Organization utilizes the indirect method for reporting the increase or decrease in cash and equivalents. The Organization considers money market funds and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

Note 2 - Summary of Significant Accounting Policies (continued)

Property and Equipment

Purchases of property and equipment are capitalized at cost. Leasehold improvements are amortized over 20 years, using the straight-line method. Depreciation on property and equipment is recorded using the straight-line method over the estimated useful life, ranging from 5 to 7 years. The Organization follows the practice of capitalizing all expenditures for equipment in excess of \$1,000.

	<u>Cost</u>	<u>Accumulated Depreciation 12/31/11</u>	<u>Depreciation Year End 12/31/12</u>	<u>Accumulated Depreciation 12/31/12</u>	<u>Net Book Value 12/31/12</u>
Leasehold Improvements	\$ 586,177	\$ 102,581	\$ 29,309	\$ 131,890	\$ 454,287
Equipment and Furniture	<u>180,719</u>	<u>105,086</u>	<u>23,874</u>	<u>128,960</u>	<u>51,759</u>
	<u>\$ 766,896</u>	<u>\$ 207,667</u>	<u>\$ 53,183</u>	<u>\$ 260,850</u>	<u>\$ 506,046</u>

Financial Instruments

The carrying amount of cash, cash equivalents, contributions receivable, prepaid expenses, payables and accruals approximate fair value due to their short-term nature.

Income Taxes

The Organization is a not-for-profit corporation and has been recognized as exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code and accordingly does not record a provision for income taxes on its related earnings. The Organization regularly reviews and evaluates its tax positions taken in previously filed information returns and as reflected in its financial statements, with regard to issues affecting its tax exempt status, unrelated business income, and related matters. It believes that in the event of an examination by taxing authorities, its positions would prevail based upon the technical merits of such positions. Therefore, the Organization has concluded that no tax benefits or liabilities are required to be recognized.

The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years ending December 31, 2012, 2011 and 2010 are subject to examination by the IRS, generally for three years after they were filed.

Estimates

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

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

Note 3 - Concentration of Credit Risk

The Organization maintains a cash account, which, at times, may exceed federally insured limits. Cash balance in excess of insured limits was \$69,641 in 2012. The Organization maintains temporary cash investments with Vanguard and Janney Montgomery Scott which are not insured by the Federal Deposit Insurance Corporation. Uninsured risk at December 31, 2012 was \$111,684. The Organization has not experienced any losses from maintaining cash accounts which are not insured or are in excess of federally insured limits. Management believes that it is not exposed to any significant credit risk on its cash accounts.

Note 4 - Lease Commitments

The Organization leases approximately 5,683 square feet of space in Terminal A of Philadelphia International Airport. The lease is for one year, renewable annually at the rate of \$1 per year. The approximate fair value of such space is \$477,400.

Note 5 - Donated Materials and Facilities

The Organization has recognized the following contributed items as of December 31, 2012:

<u>Contributor</u>	<u>Nature of Contribution</u>	<u>Fair Value</u>
Philadelphia International Airport	Rent free space	\$ 477,372
Various	Food, beverages, supplies and entertainment, etc.	<u>454,421</u>
		<u>\$ 931,793</u>

The amount of contributed items recognized as income equals the amount expensed. Therefore, there is no resultant effect on the change in net assets.

Note 6 - Contributed Services

Volunteers contributed thousands of hours of service time to the Organization in 2012. These in-kind contributions are not reflected on the financial statements since the services provided did not enhance a non-financial asset or require specialized skills.

Note 7 - Deferred Compensation

The Organization established a nonqualified deferred compensation plan under IRS Section 457(b) for the benefit of the agency's Executive Director. Benefits under this plan for the 2012 performance year were paid in March 2013 in the amount of \$15,345, and are included in accrued payroll and benefits.

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

Note 8 - Fair Value Measurements

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at December 31, 2012 are as follows:

Description	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant other Unobservable Inputs (Level 3)
<u>Fixed Income</u>				
US Government Agency Bonds	\$ 88,304	\$ -	\$ 88,304	\$ -
US Government Securities Fund	50,921	50,921	-	-
<u>Equity Mutual Funds</u>				
High Dividend Yield	105,631	105,631	-	-
Total assets measured at fair value	<u>\$ 244,856</u>	<u>\$ 156,552</u>	<u>\$ 88,304</u>	<u>\$ -</u>

Note 9 - Prior Year Information

Certain financial statements contained herein include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Note 10 - Reclassifications

Certain amounts for 2011 have been reclassified to conform with the 2012 presentations.

Note 11 - Evaluation of Subsequent Events

The Organization has evaluated subsequent events through June 14, 2013, the date which the financial statements were available to be issued. No items were noted which require disclosure in the financial statements.