

**DAVID G. FAW**  
CERTIFIED PUBLIC  
ACCOUNTANT

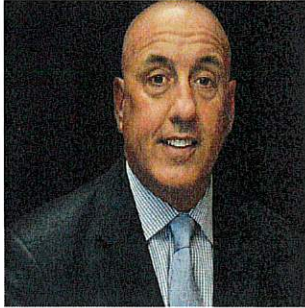
**USO OF PENNSYLVANIA AND  
SOUTHERN NEW JERSEY, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2017**

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
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As I write this letter, my heart is filled with gratitude for the dedicated volunteers, donors and community partners who empower the noble mission of the USO of Pennsylvania and Southern NJ—24 hours a day, 365 days a year. As a result of this support, I am incredibly proud to present some highlights from our accomplishments over the past year.

Following an expansion of our service area in the prior year, during 2017, we delivered over 150,000 moments of goodness to our military families throughout Pennsylvania and Southern NJ. Such a large geographic footprint, stretching from Lake Erie to the Atlantic Ocean, required our Board of Directors to develop a new strategic plan.

The strategic plan, which covers 2017 through 2020, saw the organization rethink how manpower was allocated. The small existing Program & Operation team, consisting of just five USO staff members, were tasked with regional outreach in the communities where our military families live and work. Therefore, we introduced a new position to our team, the Director of Volunteer Administration, to recruit, train, reward and retain our over 400 volunteers, who play a critical role in supporting our Program and Operations team to deliver our mission. In 2017, these volunteers donated over 45,000 hours to taking care of our service members and their families.

In late 2016, the USO of Pennsylvania and Southern NJ was proud to open the nation's newest USO center, located in Fort Indiantown Gap (FTIG). During 2017, the FTIG center saw over 40,000 visits from service members from around the country training at the headquarters of the Pennsylvania National Guard, located in Central Pennsylvania.

Our operations on Joint Base McGuire Dix Lakehurst (JB MDL) expanded in 2017 to include a space at the Military Enlistment Process Station (MEPS) on Fort Dix. This was in addition to our service location at the Passenger Terminal on the McGuire Air Force Base side of the JB MDL. New service members commencing their journey at MEPS all the way through those years concluding their commitment with the armed forces are treated to that special brand of USO goodness on JB MDL.



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After a significant unpreventable mechanical failure in March 2017 required us to abandon our home at the Philadelphia International Airport center in Terminal A East, we were thankful for our partners in the Department of Aviation, who solved our short-term needs by providing us temporary space throughout the remainder of the year. The cessation of activities at this center required us to write-off the remaining value of the center's improvements, or \$351,318. However, our endurance and resiliency through this challenge has been more than rewarded, as we are proud to announce ribbon cutting on the world's newest airport USO center in Terminal E in April 2018, which was made possible thanks to our partnership with the Philadelphia International Airport leadership.

During the year, we continued to partner with finance and human resource industry leaders to provide free budget planning and career transition workshops that have transformed lives from Pittsburgh, PA to Atlantic City, NJ. To date, we have educated over 900 service members and their spouses.

Through our care package programs we have reminded over 10,000 service members around the globe that their friends and neighbors in the Keystone and Garden States had not forgotten them.

And while their Moms or Dads were deployed, we made sure their children were provided the back to school supplies they needed. In short, over 1,000 military families were cared for by your USO when they needed it.

Of course, everything we do is only possible because of the support and generosity of dedicated partners, like you. On behalf of those we serve, thank you for your ongoing belief and trust in the USO of Pennsylvania and Southern NJ.

Sincerely,

Joseph Brooks  
President and CEO  
USO of Pennsylvania and Southern NJ



Pennsylvania and  
Southern New Jersey

**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, 2017, 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, 2017, 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. 2016 financial statements, and my report dated June 8, 2017, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink, appearing to read "James S. Jan".

Certified Public Accountant  
Wayne, Pennsylvania

June 13, 2018

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2017**  
**(with comparative totals as of December 31, 2016)**

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Cash and equivalents	\$ 608,790	\$ 692,617
Contributions receivable	271,826	48,119
Prepaid expenses	11,687	21,212
Investment in marketable securities	674,080	570,600
Property and equipment, net	<u>135,878</u>	<u>508,829</u>
Total assets	<u>\$ 1,702,261</u>	<u>\$ 1,841,377</u>
<u>Liabilities</u>		
Accounts payable	17,711	20,939
Accrued expenses	39,570	10,709
Accrued payroll and benefits	<u>85,803</u>	<u>79,088</u>
Total liabilities	<u>143,084</u>	<u>110,736</u>
<u>Net assets</u>		
Unrestricted	1,289,177	1,730,641
Temporarily restricted	<u>270,000</u>	<u>-</u>
Total net assets	<u>1,559,177</u>	<u>1,730,641</u>
Total liabilities and net assets	<u>\$ 1,702,261</u>	<u>\$ 1,841,377</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, 2017  
(with comparative totals for the year ended December 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
<u>Support and revenue</u>				
Grants and contributions	\$ 1,215,206	\$ 270,000	\$ 1,485,206	\$ 1,231,410
Fundraising events	377,893	-	377,893	644,830
Less: cost of direct donor benefits	(247,661)	-	(247,661)	(272,921)
Miscellaneous	2,496	-	2,496	2,242
Interest and investment income	9,128	-	9,128	6,050
Gain on investments	62,377	-	62,377	23,937
Contributed facilities	599,412	-	599,412	527,412
Contributed food and supplies	740,214	-	740,214	673,001
Net assets released from restrictions:				
Satisfaction of program or time restrictions	-	-	-	-
	<u>2,759,065</u>	<u>270,000</u>	<u>3,029,065</u>	<u>2,835,961</u>
<u>Expenses</u>				
Program	2,221,386	-	2,221,386	2,053,338
Management and general	255,172	-	255,172	247,127
Fundraising	372,653	-	372,653	331,579
	<u>2,849,211</u>	<u>-</u>	<u>2,849,211</u>	<u>2,632,044</u>
Change in net assets before abandonment loss - flood damage	(90,146)	270,000	179,854	203,917
Abandonment loss - flood damage Note 12	<u>351,318</u>	<u>-</u>	<u>351,318</u>	<u>-</u>
Change in net assets	(441,464)	270,000	(171,464)	203,917
Net assets at beginning of year	<u>1,730,641</u>	<u>-</u>	<u>1,730,641</u>	<u>1,526,724</u>
Net assets at end of year	<u>\$ 1,289,177</u>	<u>\$ 270,000</u>	<u>\$ 1,559,177</u>	<u>\$ 1,730,641</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, 2017  
(with comparative totals for the year ended December 31, 2016)

	<b>2017</b>	<b>2016</b>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ (171,464)	\$ 203,917
Adjustments to reconcile above change in net assets to net cash (used in) provided by operating activities:		
Depreciation	49,954	56,909
Abandonment loss	351,318	-
Gain on investment	(62,377)	(23,937)
Changes in assets and liabilities:		
Prepaid expenses	9,525	(10,102)
Contributions receivable	(223,708)	6,517
Accounts payable	(3,227)	(6,019)
Accrued expenses	28,861	4,627
Accrued payroll and benefits	6,715	11,849
Net (used in) cash provided by operating activities	(14,403)	243,761
 <u>Cash flows from investing activities</u>		
Purchase of equipment, furniture and website	(28,321)	(123,515)
Purchases of marketable securities	(95,125)	(89,003)
Proceeds from sales of marketable securities	54,022	8,169
Net cash used in investing activities	(69,424)	(204,349)
Net (decrease) increase in cash and equivalents	(83,827)	39,412
Cash and equivalents at beginning of year	692,617	653,205
Cash and equivalents at end of year	\$ 608,790	\$ 692,617

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, 2017  
(with comparative totals for the year ended December 31, 2016)

	Program	Management and General	Fund Raising	Total 2017	Total 2016
Salaries	\$ 445,478	\$ 96,870	\$ 231,194	\$ 773,542	\$ 659,965
Payroll taxes	37,022	8,051	19,213	64,286	52,890
Deferred compensation	4,990	3,992	10,978	19,960	19,063
Retirement plan	11,203	1,602	3,409	16,214	11,615
Employee benefits	90,543	19,689	46,989	157,221	146,597
<b>Total salaries and related expenses</b>	<b>589,236</b>	<b>130,204</b>	<b>311,783</b>	<b>1,031,223</b>	<b>890,130</b>
Accounting and audit	-	34,528	-	34,528	32,060
Advertising and marketing	4,778	1,039	2,480	8,297	6,847
Contributed facilities	539,471	59,941	-	599,412	527,412
Contributed food and supplies	740,214	-	-	740,214	673,001
Depreciation	44,959	4,995	-	49,954	56,909
Dues and subscriptions	5,570	1,211	2,891	9,672	7,239
Insurance	23,377	5,083	12,132	40,592	37,488
Office supplies and expense	27,375	5,953	14,207	47,535	57,923
Program food, supplies and expenses	190,218	-	-	190,218	257,597
Postage	2,482	540	1,288	4,310	3,546
Printing	10,980	2,388	5,698	19,066	8,863
Telephone	17,440	3,792	9,051	30,283	26,375
Travel	25,286	5,498	13,123	43,907	46,654
<b>Total expenses</b>	<b><u>\$ 2,221,386</u></b>	<b><u>\$ 255,172</u></b>	<b><u>\$ 372,653</u></b>	<b><u>\$ 2,849,211</u></b>	<b><u>\$ 2,632,044</u></b>

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, 2017**

Note 1 - General

USO of Pennsylvania and Southern New Jersey, Inc. (the Organization), also known as Liberty USO, is a 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 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, 2017 the Organization had no 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 an initial maturity of three months or less to be cash equivalents.

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

Note 2 - Summary of Significant Accounting Policies (continued)

Income Taxes

The Organization is a not-for-profit organization 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. Accordingly, no provision for Federal or state income taxes is included in these financial statements. The Organization follows the income tax standard for uncertain tax positions. Should the tax-exempt status be challenged in the future, the Organization's last three tax years are open for examination by the IRS.

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 and these differences could be material.

Investments

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Property and Equipment

All acquisitions of property and equipment over \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

Note 3 - Property and Equipment

As of December 31, 2017, property and equipment is as follows:

Furniture and equipment	\$ 256,757
Vehicles	129,689
Web site	<u>4,000</u>
Total	390,446
Less accumulated depreciation	<u>(254,568)</u>
Total property and equipment	<u>\$ 135,878</u>

Depreciation expense was \$49,954 for the year ended December 31, 2017.

The estimated useful lives were as follows:

Furniture and equipment	5 - 7 years
Web site	5 years
Vehicles	5 years

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

Note 4 - 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 \$331,231 in 2017. The Organization maintains temporary cash investments with Janney Montgomery Scott which are not insured by the Federal Deposit Insurance Corporation. Uninsured risk at December 31, 2017 was \$36,502. 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 5 - 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 Organization also leases space on a month-to-month basis at no cost at the Pennsylvania National Guard Armory located in Northeast Philadelphia. Effective in October 2016 the Organization opened a new facility at Fort Indiantown Gap. Rent is provided free of charge under a lease agreement ending September 30, 2021.

Note 6 - Donated Materials and Facilities

The Organization has recognized the following contributed items as of December 31, 2017:

<u>Contributor</u>	<u>Nature of Contribution</u>	<u>Fair Value</u>
Philadelphia International Airport	Rent free space	\$ 477,372
Pennsylvania National Guard Armory	Rent free space	26,040
Fort Indiantown Gap	Rent free space	<u>96,000</u>
		599,412
Various	Food, beverages, supplies and entertainment, etc.	<u>740,214</u>
		<u>\$ 1,339,626</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 7 - Contributed Services

Volunteers in the Organization's service centers contributed thousands of hours of service time to the Organization in 2017. In-kind contributions of this type are not reflected on the financial statements since the services provided did not enhance a non-financial asset or require specialized skills.

Note 8 - Deferred Compensation

The Organization maintains a nonqualified deferred compensation plan under IRS Section 457(b) for the benefit of the agency's President and CEO. Benefits under this plan for the 2017 performance year were paid in March 2018 in the amount of \$19,960, and are included in accrued payroll and benefits.

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

Note 9 - Retirement Plan

Effective January 1, 2013, the Organization established a defined contribution retirement plan for all full-time employees under Section 401 (k) of the Internal Revenue Code. The Organization matches the employee's contribution up to 4% of eligible wages. The Organization's contribution was \$16,214 for the year ended December 31, 2017.

Note 10 - 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, 2017 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	\$ 205,195	\$ -	\$ 205,195	\$ -
<u>Equity Mutual Funds</u>				
High Dividend Yield	196,771	196,771	-	-
Other - ETFs and UITs	<u>272,114</u>	<u>272,114</u>	-	-
Total assets measured at fair value	<u>\$ 674,080</u>	<u>\$ 468,885</u>	<u>\$ 205,195</u>	<u>\$ -</u>

Note 11 - Temporarily Restricted Net Assets (TRNA)

Funds classified as temporarily restricted net assets, as of December 31, 2017, consist of the following:

	TRNA Balance <u>12/31/2016</u>	Current Grants and <u>Contributions</u>	Released from <u>Restrictions</u>	TRNA Balance <u>12/31/2017</u>
Comcast Corporation Career Transition	\$ -	\$ 210,000	\$ -	\$ 210,000
InterDigital Mobile Tech	-	60,000	-	60,000
	<u>\$ -</u>	<u>\$ 270,000</u>	<u>\$ -</u>	<u>\$ 270,000</u>

Note 12 - Abandonment of Leasehold Improvements

During the first quarter of 2017, the USO Center at the Philadelphia International Airport experienced a devastating flood that shut down operations at that space permanently. As a result of the flood, nearly all of the contents of the space including all leasehold improvements were left behind as abandoned. The Airport Facilities Administration found temporary space that the Organization was able to use during the balance of 2017. During this time and into early 2018, the Airport, at its own cost, constructed new replacement space for the Center that opened in May of 2018.

**USO OF PENNSYLVANIA AND SOUTHERN NEW JERSEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

Note 13 - 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, 2016, from which the summarized information was derived.

Note 14 - New Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14 to Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends several requirements for financial statements and notes, including net asset classifications in the statements of financial position and statements of activities and enhanced disclosures in numerous areas. This standard is effective for the fiscal year ending December 31, 2018, with early adoption permitted. The Organization is evaluating the impact this ASU will have on the financial statement presentation.

Note 15 - Evaluation of Subsequent Events

The Organization has evaluated subsequent events through June 13, 2018, the date which the financial statements were available to be issued. No items were noted which require disclosure in the financial statements.