

**USO-GREATER LOS ANGELES AREA, INC.
(dba BOB HOPE USO)**

FINANCIAL STATEMENTS

DECEMBER 31, 2017

BYEMAN & CLEARY
CERTIFIED PUBLIC ACCOUNTANTS

412 W. BROADWAY • SUITE 206 • GLENDALE, CALIFORNIA 91204-1297
TELEPHONE 818 • 247-3223 • FACSIMILE 818 • 247-9066

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
USO-Greater Los Angeles Area
(dba Bob Hope USO)
Long Beach, California

We have audited the accompanying financial statements of USO-Greater Los Angeles Area (dba Bob Hope USO) (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the twelve-month period ended December 31, 2017 and the six-month period ended December 31, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Bob Hope USO as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the twelve-month period ended December 31, 2017 and six-month period ended December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Note 9 Bob Hope USO in 2016 changed its June 30 fiscal year-end to December 31, a calendar year-end. This will facilitate reporting to USO, Inc. which grants the charter under which Bob Hope USO operates exclusively in a designated area of Southern and Central California. As a result of this change in accounting period the accompanying financial statements compare activities in the current twelve-month period of operations with the previous six-month period.

A handwritten signature in blue ink that reads "Pyeman & Cleary". The signature is written in a cursive, flowing style.

September 26, 2018

USO - GREATER LOS ANGELES AREA, INC.

(dba BOB HOPE USO)

STATEMENT OF FINANCIAL POSITION

	Year Ended December 31, 2017	Six Months Ended December 31, 2016
<u>ASSETS</u>		
Current assets:		
Cash	\$ 735,980	\$ 404,400
Contributions receivable	138,767	-
Pledges receivable	655,000	111,250
Prepaid expense	<u>29,252</u>	<u>12,312</u>
Total current assets	<u>1,558,999</u>	<u>527,962</u>
Equipment and improvements:		
Leasehold improvements	1,117,492	1,112,486
Construction in progress	205,171	-
Equipment and furnishings	698,599	643,707
Vehicles	118,256	84,205
Art and collectibles	5,950	5,950
Less: accumulated depreciation	<u>(972,112)</u>	<u>(826,627)</u>
Net equipment and improvements	<u>1,173,356</u>	<u>1,019,721</u>
Other assets:		
Investment	<u>-</u>	<u>682,275</u>
Total other assets	<u>-</u>	<u>682,275</u>
TOTAL ASSETS	<u>\$ 2,732,355</u>	<u>\$ 2,229,958</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 95,041	\$ 181,738
Accrued payroll and vacation	<u>77,178</u>	<u>73,460</u>
Total current liabilities	<u>172,219</u>	<u>255,198</u>
Total liabilities	<u>172,219</u>	<u>255,198</u>
Net assets:		
Unrestricted	<u>2,560,136</u>	<u>1,974,760</u>
Total net assets	<u>2,560,136</u>	<u>1,974,760</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,732,355</u>	<u>\$ 2,229,958</u>

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

USO - GREATER LOS ANGELES AREA, INC.

(dba BOB HOPE USO)

STATEMENT OF ACTIVITIES

	Year Ended December 31, 2017			Six Months Ended December 31, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	\$ 1,551,101	\$ 20,002	\$ 1,571,103	\$ 613,668	\$ 8,000	\$ 621,668
Capital campaign contributions	905,571	-	905,571	-	-	-
In-kind contributions	2,093,879	-	2,093,879	630,433	-	630,433
Interest income	3,236	-	3,236	902	-	902
Miscellaneous	28,129	-	28,129	-	-	-
Sales of merchandise and apparel	28,819	-	28,819	4,602	-	4,602
Total support and revenue	4,610,735	20,002	4,630,737	1,249,605	8,000	1,257,605
Net assets released due to satisfaction of restrictions	20,002	(20,002)	-	8,000	(8,000)	-
Total support and revenue	4,630,737	-	4,630,737	1,257,605	-	1,257,605
EXPENSES:						
Program services	3,396,504	-	3,396,504	1,329,243	-	1,329,243
Management and general	373,919	-	373,919	144,169	-	144,169
Fundraising	274,938	-	274,938	183,491	-	183,491
Total expenses	4,045,361	-	4,045,361	1,656,903	-	1,656,903
Change in net assets	585,376	-	585,376	(399,298)	-	(399,298)
Net assets at beginning of year	1,974,760	-	1,974,760	2,374,058	-	2,374,058
Net assets at end of year	\$ 2,560,136	-	\$ 2,560,136	\$ 1,974,760	-	\$ 1,974,760

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

USO - GREATER LOS ANGELES AREA , INC.

(dba BOB HOPE USO)

STATEMENT OF FUNCTIONAL EXPENSES

	Year Ended December 31, 2017				Six Months Ended December 31, 2016			
	Program Services	Management & General	Fund- Raising	Total Expenses	Program Services	Management & General	Fund- Raising	Total Expenses
Salaries	\$ 468,853	\$ 119,846	\$ 205,841	\$ 794,540	\$ 226,814	\$ 64,210	\$ 149,804	\$ 440,828
Payroll taxes	36,329	15,433	12,821	64,583	13,505	8,650	9,360	31,515
Employee benefits	20,618	(537)	977	21,058	2,576	1,486	892	4,954
Legal & professional	21,326	171,863	21,043	214,232	-	45,371	-	45,371
Payroll processing	1,870	-	-	1,870	-	-	-	-
Advertising & promotion	20,033	200	14,867	35,100	4,317	-	12,041	16,358
Office expense	11,642	1,153	219	13,014	3,212	899	828	4,939
Information technology	17,424	2,773	3,679	23,876	11,018	1,914	1,042	13,974
Website	3,480	600	-	4,080	5,700	-	-	5,700
Telephone & internet	26,727	2,679	784	30,190	15,931	919	592	17,442
Occupancy in - kind	617,068	-	-	617,068	285,787	-	-	285,787
Rent paid	25,147	14,508	8,705	48,360	10,317	5,952	3,571	19,840
Utilities paid	2,500	-	-	2,500	2,500	-	-	2,500
Parking	2,087	1,217	716	4,020	1,332	769	461	2,562
Travel & auto mileage	29,787	129	2,433	32,349	7,865	-	2,414	10,279
On-base events	231,426	-	-	231,426	7,931	1,516	-	9,447
Depreciation	124,062	21,423	-	145,485	49,327	10,437	-	59,764
Insurance	48,572	18,700	-	67,272	4,222	-	-	4,222
Food & supplies in - kind	1,258,132	-	-	1,258,132	297,080	-	-	297,080
Supplies	47,742	(298)	265	47,709	21,541	-	755	22,296
Food & beverages	299,841	-	-	299,841	310,251	-	-	310,251
Volunteer recognition	36,011	-	-	36,011	28,771	-	-	28,771
Repairs & maintenance	12,897	3,281	781	16,959	1,156	59	35	1,250
Janitorial	11,183	-	-	11,183	10,339	589	354	11,282
Licenses and permits	1,612	298	975	2,885	539	150	-	689
Meals & entertainment	4,354	503	70	4,927	1,488	1,069	145	2,702
Bank & merchant fees	183	85	740	1,008	18	179	855	1,052
Miscellaneous	15,598	63	22	15,683	5,706	-	342	6,048
Total expenses	\$ 3,396,504	\$ 373,919	\$ 274,938	\$ 4,045,361	\$ 1,329,243	\$ 144,169	\$ 183,491	\$ 1,656,903

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

USO - GREATER LOS ANGELES AREA, INC.

(dba BOB HOPE USO)

STATEMENT OF CASH FLOWS

	<u>Year Ended</u> <u>December 31, 2017</u>	<u>Six Months Ended</u> <u>December 31, 2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 585,376	\$ (399,298)
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation	145,485	59,764
Equipment & furnishings received in - kind	-	(1,758)
Leasehold improvements received in - kind	-	(24,262)
Construction in progress received in-kind	(99,247)	
Interest income added to investment	-	(764)
(Increase) decrease in:		
Contributions receivable	(27,517)	304,690
Pledges receivable	(655,000)	
Prepaid expense	(16,940)	(12,312)
Increase (decrease) in:		
Accounts payable	(86,697)	163,693
Accrued payroll and vacation	3,718	11,903
Net cash provided by operating activities	<u>(150,822)</u>	<u>101,656</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of vehicle additions	(34,051)	(84,205)
Paid for constuction in progress	(105,924)	
Redemption of investment	682,275	
Purchase of leasehold improvements	(5,006)	(8,500)
Purchase of equipment & furnishings	(54,892)	(18,024)
Net cash used by investing activities	<u>482,402</u>	<u>(110,729)</u>
Net increase (decrease) in cash	331,580	(9,073)
Cash at beginning of year	<u>404,400</u>	<u>413,473</u>
Cash at end of year	<u>\$ 735,980</u>	<u>\$ 404,400</u>

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

USO-GREATER LOS ANGELES AREA, INC.

(dba BOB HOPE USO)

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

1. NATURE OF ORGANIZATION

USO-Greater Los Angeles Area, Inc. (dba Bob Hope USO) is a California nonprofit corporation that is exempt from federal income tax under Internal Revenue Code section 501 (c) (3). The corporation operates under a charter agreement granted by USO, Inc., but is a financially and legally independent entity which receives no material amount of funding from the national organization. Bob Hope USO's mission is to keep America's troops connected to family, home, and country throughout their service to the nation by providing morale, welfare, and entertainment programs. Bob Hope USO operates centers at Los Angeles, Ontario, Orange County, and Palm Springs International Airports and the Military Entrance Processing Station in El Segundo, California. From these five centers, a mobile unit, and administrative offices in Long Beach, the organization served more than 200,000 troops and military families in 2017 on more than two dozen major and auxiliary military installations across a service area of 51,000 square miles in Los Angeles, Orange, Riverside, San Bernardino, Ventura, Santa Barbara, San Luis Obispo, and Kern counties.

The Organization is primarily supported by donations of cash and gifts-in-kind received from donors in Southern and Central California. It does not receive any federal government funding.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public support, revenue, and reclassifications

Revenue is recognized when earned and support is recognized when cash is received, unconditional promises are made, or ownership of other assets is transferred. Pledges are recorded in the statement of financial position when the Organization is notified of the pledge, and allowances are provided for amounts estimated as uncollectible. Bequests are recorded as income at the time the Organization has an established right to the bequest and the proceeds are measurable.

Gifts of cash and other assets are reported as restricted support if they are received with explicit donor stipulations that limit the use of donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts of property and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Expirations of donor restrictions are reported when donated or acquired long-lived assets are placed in service unless donors stipulate otherwise.

Contributed services

During the year ended December 31, 2017, the value of contributed legal services recorded was \$212,970. In the year, 645 volunteers provided 106,323 hours of service staffing the airport centers and on-base programs and events. These services have not been recorded in the financial statements because they are not of a professional nature nor do they enhance assets as required by Generally Accepted Accounting Principles (GAAP). The value of these hours at \$14.26 per hour (the mean wage for personal care services in the Los Angeles Metropolitan Area according to the United States Department of Labor, Bureau of Labor Statistics) would be \$1,516,166.

USO-GREATER LOS ANGELES AREA, INC.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Contributed services (continued)

During the six months ended December 31, 2016, the value of contributed legal services recorded was \$18,451. In addition, 756 volunteers provided 51,113 hours of service which were not recorded. At the 2016 rate of \$13.98 per hour the value of this volunteer service would be \$714,560.

Cash

Cash represents deposits in bank checking accounts and amounts in bank certificates of deposit with maturities of 12 months or less.

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 the amounts reported in the financial statements and accompanying disclosures. Accordingly, actual results could differ from those estimates.

Donated materials and facilities

Donated materials and the use of facilities have been recorded as income at the estimated fair value of the material and bargain rent received. The value of these materials when distributed is recorded as expense. Donated materials consist primarily of food and snack items as well as sports and entertainment tickets. Facilities at Los Angeles, Ontario, Orange County, and Palm Springs airports are each rented for \$1 per year. Space occupied at The Military Entrance Processing Center is rent free. The value of bargain rent recorded at December 31, 2017 (twelve months) and December 31, 2016 (six months) was \$562,071 and \$244,686 respectively.

Classes of net assets

Unrestricted net assets include amounts available to be used at the discretion of the board of directors in the organization's programs and operations and those resources invested in equipment. Temporarily restricted net assets are those that are restricted by donors for specific operating purposes. Permanently restricted net assets are those that 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 in accordance with donor intentions. All donations are considered available for unrestricted use, unless specifically restricted by the donor.

Equipment and improvements

Property and equipment is recorded at cost or estimated fair value if received by donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Absent donor directions regarding how long those donated assets must be maintained, the organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. Property and equipment are depreciated on the straight-line method over estimated useful lives of 3 to 10 years for furniture and equipment and 30 years for leasehold improvements. Art and memorabilia held for display is recorded at appraised value and is not depreciated.

USO-GREATER LOS ANGELES AREA, INC.

(dba BOB HOPE USO)

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

3. PLEDGES and CONTRIBUTIONS RECEIVABLE

Pledges receivable at December 31, 2017 is the amount receivable for pledges received near the fiscal year end. Management is confident that this will be collected and therefore no reserve for uncollectibility has been made. The pledges are due within approximately one year and therefore no discount has been recorded. Pledges receivable at December 31, 2016 were subsequently collected in 2017.

Contributions receivable are donations and reimbursements due at December 31, 2017. These were collected in January and February 2018.

4. INVESTMENTS

Investments were held in a bank deposit sweep account. The deposits were spread among several banks so that they had full FDIC insurance protection. These were redeemed in 2017.

5. INCOME TAXES

The organization evaluates all significant tax positions as required by generally accepted accounting principles in the United States. As of December 31, 2017, the organization believes that all its tax positions would be sustainable upon examination by the appropriate taxing jurisdictions. As of December 31, 2017, the organization's federal returns remain open to examination for the past three years. California returns remain open for four years.

6. CONCENTRATIONS

Bob Hope USO maintains cash in banks located in Southern California. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Based on bank balances in checking accounts there were uninsured cash balances at December 31, 2017 and 2016 of \$424,667 and \$134,972 respectively.

Bob Hope USO is supported primarily by donor contributions. No single donor provides a significant amount of cash support. In the year ended December 31, 2017 and six months ended December 31, 2016, donated facilities were 23% and 39% of the in-kind donations respectively. In addition, donated facilities were 13% and 20% of total contribution income in those periods respectively. In-kind contributions were 45% and 50% of total income in those periods respectively.

7. OPERATING LEASES

The Organization has leases for facilities at four airports at which program services are conducted. The leases are for a nominal rent of \$1 per year. Three leases can be terminated with 30 days written notice by either party. The other lease can be terminated upon 90 days written notice.

A 60-month lease for headquarters office space commenced on August 1, 2015. The lease calls for the monthly rate to escalate in fixed amounts every twelve months after commencement. The Organization is also liable for its share of the direct expenses and utilities.

A printer/copier was leased effective April 1, 2016 at \$225 per month for 48 months.

USO-GREATER LOS ANGELES AREA, INC.

(dba BOB HOPE USO)

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

7. OPERATING LEASES (continued)

The annual rent for the years ended December 31 is:

	<u>Office</u>	<u>Printer</u>	<u>Total</u>
2018	\$ 49,724	\$2,700	\$ 52,424
2019	51,212	2,700	53,912
2020	<u>30,380</u>	<u>675</u>	<u>31,055</u>
Total	<u>\$131,316</u>	<u>\$6,075</u>	<u>\$137,391</u>

8. EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through September 26, 2018 the date which the financial statements were available to be issued. Subsequent to December 31, 2017, a lease was signed with Los Angeles World Airports (LAWA) for a new and expanded center at Los Angeles International Airport. Construction costs of the new facility are being shared with LAWA. This will require a substantial financial commitment on the part of Bob Hope USO. A capital campaign to finance the Organization's share of the costs is ongoing. The new center opened on July 27, 2018.

A pledge of \$2,000,000 was received from the Hope Foundation after December 31, 2017. Under the terms of the pledge \$1,000,000 was received in July, 2018 and \$1,000,000 will be received over the course of the next five years.

9. CHANGE OF ACCOUNTING PERIOD

The Organization changed its fiscal year-end to a calendar year-end effective January 1, 2017. As a result, these financial statements are for the twelve months ended December 31, 2017 and for the six months ended December 31, 2016. This is noted in the headings of columns in the financial statements. The change was made to facilitate reporting to USO, Inc. which reports on a calendar year ending December 31.