# United Service Organizations of Illinois, Inc.

Financial Report
December 31, 2016

## Contents

RSM US LLP

## Independent Auditor's Report

To the Board of Directors
United Service Organizations of Illinois, Inc.
Chicago, Illinois

**Report on the Financial Statements**
We have audited the accompanying financial statements of United Service Organizations of Illinois, Inc. (the Organization) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities 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 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 audits 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 the Organization as of December 31, 2016 and 2015, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Chicago, Illinois
April 20, 2017

**United Service Organizations of Illinois, Inc.**

**Statements of Financial Position**
**December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 1,046,885** | $ 1,101,517 |
| Investments | **2,406,666** | 1,833,804 |
| Pledges receivable | **68,655** | 52,900 |
| Interest receivable | **7,613** | 5,294 |
| Other receivables | **37,142** | 33,950 |
| Prepaid expenses | **12,580** | 32,280 |
| **Total current assets** | **3,579,541** | 3,059,745 |
| Property and equipment, net | **34,817** | 49,480 |
| | **$ 3,614,358** | $ 3,109,225 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | **$ 48,913** | $ 72,074 |
| Accrued paid time off | **55,269** | 52,705 |
| Accrued pension cost | **107,501** | 121,765 |
| Deferred revenues | **-** | 22,300 |
| **Total liabilities** | **211,683** | 268,844 |
| Net assets: | | |
| Unrestricted, including Board designated of $80,402 in 2016 and $100,000 in 2015 | **3,366,327** | 2,689,381 |
| Temporarily restricted | **36,348** | 151,000 |
| **Total net assets** | **3,402,675** | 2,840,381 |
| | **$ 3,614,358** | $ 3,109,225 |

See notes to financial statements.

**United Service Organizations of Illinois, Inc.**

**Statements of Activities**
**Years Ended December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|---|---|
| Changes in unrestricted net assets: | | |
| Revenues, gains and other support: | | |
| Contributions: | | |
| Donor contributions | **$ 1,311,262** | $ 1,404,139 |
| In-kind program supplies | **1,440,194** | 1,581,951 |
| In-kind services | **220,897** | 195,323 |
| In-kind rent | **602,182** | 859,152 |
| Investment income | **54,105** | 21,534 |
| Annual ball | **1,143,912** | 1,073,105 |
| Golf outing | **98,610** | 118,745 |
| Clark After Dark | **146,892** | 146,464 |
| Net assets released from restrictions | **247,080** | 174,438 |
| **Total unrestricted revenues, gains and other support** | **5,265,134** | 5,574,851 |
| Expenses: | | |
| Program services | **3,403,603** | 3,843,538 |
| Management and general expenses | **433,727** | 400,953 |
| Fundraising expenses | **385,515** | 369,101 |
| Annual ball | **265,921** | 263,447 |
| Golf outing | **38,256** | 48,436 |
| Clark After Dark | **61,376** | 52,415 |
| **Total expenses** | **4,588,398** | 4,977,890 |
| **Increase in unrestricted net assets before pension adjustments and loss on disposal** | **676,736** | 596,961 |
| Pension related changes other than net periodic benefit cost | **1,469** | 54,248 |
| Loss on disposal of assets | **(1,259)** | (3,873) |
| **Increase in unrestricted net assets** | **676,946** | 647,336 |
| Changes in temporarily restricted net assets: | | |
| Contributions | **132,428** | 256,960 |
| Net assets released from restrictions | **(247,080)** | (174,438) |
| **(Decrease) increase in temporarily restricted net assets** | **(114,652)** | 82,522 |
| **Increase in net assets** | **562,294** | 729,858 |
| Net assets: | | |
| Beginning of year | **2,840,381** | 2,110,523 |
| End of year | **$ 3,402,675** | $ 2,840,381 |

See notes to financial statements.

**United Service Organizations of Illinois, Inc.**

**Statements of Cash Flows**
**Years Ended December 31, 2016 and 2015**

| | **2016** | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Increase in net assets | **$ 562,294** | $ 729,858 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | **18,910** | 69,693 |
| Net loss on disposal of property and equipment | **1,259** | 3,873 |
| Net realized and unrealized (gain) loss on investments | **(19,514)** | 4,379 |
| Changes in assets and liabilities: | | |
| Pledges receivable | **(15,755)** | 63,925 |
| Interest receivable | **(2,319)** | 1,737 |
| Other receivables | **(3,192)** | (15,214) |
| Prepaid expenses | **19,700** | (922) |
| Accounts payable and accrued expenses | **(23,161)** | 16,424 |
| Accrued paid time off | **2,564** | 9,253 |
| Accrued pension cost | **(14,264)** | (59,408) |
| Deferred revenues | **(22,300)** | 2,300 |
| **Net cash provided by operating activities** | **504,222** | 825,898 |
| Cash flows from investing activities: | | |
| Purchase of investments | **(962,354)** | (750,041) |
| Maturities of investments | **409,006** | 583,582 |
| Purchase of property and equipment | **(5,506)** | (33,226) |
| **Net cash used in investing activities** | **(558,854)** | (199,685) |
| **Net (decrease) increase in cash and cash equivalents** | **(54,632)** | 626,213 |
| Cash and cash equivalents: | | |
| Beginning | **1,101,517** | 475,304 |
| Ending | **$ 1,046,885** | $ 1,101,517 |

See notes to financial statements.

## Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities**: The United Service Organizations of Illinois, Inc. (the Organization) strengthens America's Military Service members by keeping them connected to family, home, and country throughout their service to the nation. As the premier provider of programs and centers, the Organization is the leader and trusted resource that serves the needs of the Military community in times of peace and war, and acts as a bridge to the public.

A summary of the Organization's significant accounting policies follows:

**Basis of presentation**: The financial statements are presented in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations and reflect the accrual basis of accounting.

**Accounting standards**: The Organization follows accounting standards established by the Financial Accounting Standards Board (the FASB) to ensure consistent reporting of financial condition, results of operations, and cash flows. References to generally accepted accounting principles in these footnotes are to the FASB Accounting Standards Codification, sometimes referred to as the Codification or ASC.

**Accounting estimates**: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Net assets**: The net assets of the Organization and changes therein are classified and reported as follows:

> *Unrestricted net assets*: Net assets are not subject to donor-imposed stipulations. As of December 31, 2016 and 2015, the Organization has $80,402 and $100,000, respectively, of unrestricted net assets which represent funds that are Board designated for future projects, capital improvements, or other specific services determined by the Board.
>
> *Temporarily restricted net assets*: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization or the passage of time. Temporarily restricted net assets are available for program services at December 31, 2016 and 2015.

**Cash and cash equivalents**: For purposes of reporting cash flows, the Organization considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of money market accounts. The Organization maintains its cash balances in several financial institutions located in Chicago, Illinois. These balances are currently insured by the Federal Deposit Insurance Corporation up to $250,000. The Organization maintained cash deposits with $583,488 and $367,732 in excess of federal depository insurance limits for the years ended December 31, 2016 and 2015, respectively.

**Investments**: Investments are reflected at fair value based on quoted market prices. Realized gains or losses for mutual funds are computed using the specific-identification method.

The Organization invests in various investments such as corporate and government bonds and common stocks. Such investments are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

## Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Pledges receivable**: Unconditional promises to give that are expected to be collected within one year are recorded at realizable value. Unconditional promises to give that are expected to be collected over periods in excess of one year are recorded at the present value of the estimated cash flows beyond one year. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

**Property and equipment**: Property and equipment is stated at cost or, if donated, at estimated fair value at the date of donation. The capitalization threshold is assets over $1,000. Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

**Accrued paid time off**: It is the Organization's policy to permit employees to accumulate earned but unused paid time off. All vested pay, in the event of termination in accordance with the Organization's policy, is accrued when incurred.

**Revenue recognition**: Unconditional promises of others to give cash and other assets are recorded at fair value at the date the promise is made and reported as increases in temporarily restricted net assets if they are received with donor stipulations that limit the use of the contributions. All contributions are considered to be available for unrestricted purposes unless specifically restricted by the donor. Temporarily restricted assets whose restrictions expire in the same year of receipt are classified as unrestricted revenues in the statements of activities. The Organization reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated assets. When a temporary restriction expires, that is, when a stipulated time period has elapsed or the donor-stipulated purpose has been fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**Deferred revenue**: Amounts collected in advance for future events are recorded as deferred revenue.

**Functional classification of expenses**: The functional classifications used by the Organization are program services and supporting services. Expenses are based on actual costs incurred.

Program services represent the Organization's activities as described above. These activities are carried out in support of the members of the military and their families throughout the State of Illinois. Additionally, services are provided at the USO Centers in O'Hare International Airport, the Naval Station Great Lakes, Midway Airport and Rock Island Arsenal. Supporting services represent the administrative, general and fundraising costs of the Organization.

**Contributed facilities, materials and services**: The Organization occupies without charge its facilities at O'Hare International Airport, Midway Airport, Naval Station Great Lakes, Rock Island Arsenal and the administrative headquarters in Chicago. In addition, the Organization receives donated consumer goods and property and equipment. Both the contributions and use of facilities are recognized at their fair values as both revenue and expense in the period received and used. Accordingly, $2,042,376 and $2,441,103 for the years ended December 31, 2016 and 2015, respectively, have been included in contributions and $2,042,376 and $2,441,103 for the years ended December 31, 2016 and 2015, respectively, have been included in program services expense.

Contributions of donated services that require specialized skills and would typically need to be purchased if not provided by donations, are recorded at their fair values in the period received. There was $220,897 and $195,323 in donated legal services and office management in 2016 and 2015, respectively, which have been included in both contributions and program services expense.

## Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Organization supports its programs and services with an active base of volunteers. In 2016, 643 volunteers contributed approximately 50,000 hours of time to the Organization. In 2015, 667 volunteers contributed approximately 54,800 hours of time to the Organization.

**Income taxes**: The Organization is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and applicable state law. The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more than likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBTI). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the reporting periods presented in the financial statements.

The Organization files form 990 in the U.S. Federal jurisdiction and the State of Illinois. With few exceptions, the Organization is no longer subject to examination by the Internal Revenue Service for years before 2013.

**Subsequent events**: The Organization has evaluated subsequent events for potential recognition and/or disclosure through April 20, 2017, the date the financial statements were available to be issued.

## Note 2. Investments

Investments consist of the following at December 31, 2016 and 2015:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Equities | $ 63,120 | $ 124,935 | $ 57,924 | $ 106,029 |
| Certificates of deposit | 2,277,149 | 2,281,731 | 1,731,006 | 1,727,775 |
| | $ 2,340,269 | $ 2,406,666 | $ 1,788,930 | $ 1,833,804 |

## Note 3. Fair Value Disclosures

Fair value is the price that would be received to sell an asset and paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

## Note 3. Fair Value Disclosures (Continued)

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and corporate bond funds, which are traded by dealers or brokers in active markets. The Organizations certificates of deposit are also classified as Level 1. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the years ended December 31, 2016 and 2015, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments at fair value:

**Investments**
The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers.

**Fair value on a recurring basis**
The table below presents the balances of assets and liabilities measured at fair value on a recurring basis:

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Equities, primarily U.S. companies | $ 124,935 | $ 124,935 | $ - | $ - |
| Certificates of deposit | 2,281,731 | 2,281,731 | - | - |
| Total assets | $ 2,406,666 | $ 2,406,666 | $ - | $ - |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Equities, primarily U.S. companies | $ 106,029 | $ 106,029 | $ - | $ - |
| Certificates of deposit | 1,727,775 | 1,727,775 | - | - |
| Total assets | $ 1,833,804 | $ 1,833,804 | $ - | $ - |

### Note 3. Fair Value Disclosures (Continued)

Gains and losses (realized and unrealized) included in investment income are as follows at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Interest and dividends | $ 34,591 | $ 25,913 |
| Realized gains on investments | - | 889 |
| Unrealized gains (losses) on investments | 19,514 | (5,268) |
| Investment income | $ 54,105 | $ 21,534 |

### Note 4. Pledges Receivable

Total outstanding pledges for the years ended December 31, 2016 and 2015 are $68,655 and $52,900, respectively, all to be collected in the subsequent calendar year. There are no discounts for the time value of money as all pledges are due within one year. Additionally, there is no allowance for uncollectible amounts as management believes all are fully collectible.

### Note 5. Defined Benefit Pension Plan

The Organization has a defined benefit pension plan which provides benefits to certain regular full-time employees of the Organization.

The following table sets forth the change in projected benefit obligation, change in plan assets, the components of benefit cost, and valuation assumptions at December 31, 2016 and 2015.

## Note 5. Defined Benefit Pension Plan (Continued)

**Obligations and Funded Status**
Obligations and funded status at December 31, 2016 and 2015, are as follows:

***Change in projected benefit obligation***

| | 2016 | 2015 |
|---|---|---|
| Projected benefit obligation at beginning of year: | $ 558,058 | $ 624,267 |
| Provision for expenses | 20,000 | 20,000 |
| Interest cost | 22,798 | 21,610 |
| Expenses paid from plan assets | (23,876) | (31,089) |
| Actuarial loss (gain) | 3,503 | (63,163) |
| Benefits paid | (13,567) | (13,567) |
| Projected benefit obligation at end of year | $ 566,916 | $ 558,058 |

***Change in plan assets***

| | 2016 | 2015 |
|---|---|---|
| Fair value of assets at beginning of year: | $ 436,293 | $ 443,094 |
| Actual return on plan assets | 25,005 | 9,508 |
| Employer contributions | 35,560 | 28,347 |
| Expenses paid from plan assets | (23,876) | (31,089) |
| Benefits paid | (13,567) | (13,567) |
| Fair value of assets at end of year | $ 459,415 | $ 436,293 |
| ***Funded status of plan-accrued pension cost recognized in the statement of financial position*** | $ (107,501) | $ (121,765) |

| | 2016 | 2015 |
|---|---|---|
| Components of pension related changes other than net periodic benefit cost: | | |
| Net loss (gain) experienced during year | $ 9,721 | $ (40,635) |
| Amortization of net loss | (11,190) | (13,613) |
| Total pension related changes other than net periodic benefit cost | $ (1,469) | $ (54,248) |
| Unrecognized net loss as a component of net periodic benefit cost | $ 347,521 | $ 348,990 |

The projected benefit obligation is equal to the accumulated benefit obligation.

## Note 5. Defined Benefit Pension Plan (Continued)

### Components of Net Periodic Benefit Cost

| | 2016 | 2015 |
|---|---|---|
| Interest cost | $ 22,798 | $ 21,610 |
| Provision for expenses | 20,000 | 20,000 |
| Expected return on assets | (31,223) | (32,036) |
| Amortization of unrecognized: | | |
| Net loss | 11,190 | 13,613 |
| Net periodic pension cost | $ 22,765 | $ 23,187 |

The reconciliation of the funded status of the plan to the amounts reported in the accompanying statements of financial position is as follows at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Projected benefit obligation | $ (566,916) | $ (558,058) |
| Fair value of plan assets at December 31 | 459,415 | 436,293 |
| Funded status - accrued pension cost | $ (107,501) | $ (121,765) |

**Additional Information**

Weighted average assumptions used to determine benefit obligations at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | 4.00 % | 4.20 % |
| Rate of compensation increase | N/A | N/A |

## Note 5. Defined Benefit Pension Plan (Continued)

Weighted average assumptions used to determine net periodic benefit cost at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | 4.20 % | 3.79 % |
| Expected long-term return on plan assets | 7.00 | 7.00 |
| Rate of compensation increase | N/A | N/A |

**Plan Assets**

The Organization participates in a pooled pension plan sponsored by the United Way of Metropolitan Chicago. All plan assets are held in a Master Trust, which holds the assets of all retirement plans sponsored by the various organizations. The Organization's percentage interest in the assets of the Master Trust was approximately 2 percent as of both December 31, 2016 and 2015.

The pension plan weighted-average asset allocations at December 31, 2016 and 2015, by asset category are as follows:

| | 2016 | 2015 |
|---|---|---|
| Equities: | | |
| Domestic | 42.0 % | 30.6 % |
| International | 4.2 | 4.4 |
| Fixed income (including cash and equivalents) | 53.8 | 38.5 |
| Global balanced | - | 14.7 |
| Real estate | - | 11.8 |
| | 100.0 % | 100.0 % |

**Note 5. Defined Benefit Pension Plan (Continued)**

The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument. The fair values of the Organization's pension plan assets by asset category are as follows at December 31, 2016 and 2015:

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Equities: | | | | |
| U.S. equities | $ 192,891 | $ 192,891 | $ - | $ - |
| International equities | 19,389 | 19,389 | - | - |
| Fixed income | 247,135 | 247,135 | - | - |
| Total assets | $ 459,415 | $ 459,415 | $ - | $ - |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Equities: | | | | |
| U.S. equities | $ 133,347 | $ 133,347 | $ - | $ - |
| International equities | 19,209 | 19,209 | - | - |
| Fixed income | 168,049 | 168,049 | - | - |
| Global balanced | 64,096 | 64,096 | - | - |
| Real estate | 51,592 | - | - | 51,592 |
| Total assets | $ 436,293 | $ 384,701 | $ - | $ 51,592 |

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Balance, beginning of year | $ 51,592 | $ 47,810 |
| Net investment gain | - | 3,782 |
| Sale of investments | (51,592) | - |
| Balance, end of year | $ - | $ 51,592 |

The investment policy for plan assets incorporates a blended approach (target allocations in parenthesis), utilizing domestic (42 percent) and international (4 percent) equities and fixed income and cash (54 percent), in 2016. The objective within each class is to be fully diversified, benchmarking performance to broadly diversified indices such as the Wilshire 5000, the MSCI All Country World ex-US Index, and the Lehman Brothers Aggregate Bond Index. Asset allocations are rebalanced whenever total equity or total fixed income falls outside of their target allocations by more than 2.5 percent. Cash and equivalents are held at minimal levels, with typically less than three months of expected benefit payments maintained.

## Note 5. Defined Benefit Pension Plan (Continued)

The expected long-term rate of return on asset assumption is based on a building block approach. The expected long-term rate of inflation and risk premiums for the various asset categories are based on the current investment environment. General historical market returns and inflation rates are used in the development of the long-term expected inflation rates and risk premiums. The target allocation of assets is used to develop a composite rate of return assumption.

**Investment Liquidity and Valuation**
The plan held approximately 11.8 percent of their investments in real estate investments that are considered illiquid by the very nature of the investments, in 2015. All of these investments have been liquidated as of December 31, 2016. Market risk exists with respect to these investments as the plan may not be able to exit from the investments during periods of significant market value declines. These types of alternative investments can also be difficult to value in the current economy.

**Contributions**
The Organization made contributions of $35,560 and $28,347 to its defined benefit pension plan during the years ended December 31, 2016 and 2015, respectively.

The Organization was notified late in 2016 that United Way would no longer be responsible for administering the pension plan effective in 2017. Subsequent to December 31, 2016, on March 9, 2017, the Board of Directors approved the termination of the Plan prior to December 31, 2017. The Organization plans to self-administer the Plan until its termination.

## Note 6. Property and Equipment

Major classes of property and equipment consist of the following at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Furniture and equipment | $ 239,439 | $ 278,718 |
| Leasehold improvements | 166,462 | 166,462 |
| | 405,901 | 445,180 |
| Less accumulated depreciation | 371,084 | 395,700 |
| Net property and equipment | $ 34,817 | $ 49,480 |

## Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Military youth and family programs | $ 10,589 | $ 21,128 |
| Military community connection programs | 1,401 | 13,074 |
| Center programs | 13,238 | 5,036 |
| Center support designations | 11,120 | 4,917 |
| Time restricted funds | - | 106,845 |
| | $ 36,348 | $ 151,000 |

## Note 8. Net Assets Released From Restrictions

The following net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors at December 31, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Military youth and family programs | $ 90,539 | $ 63,189 |
| Military community connection programs | 41,673 | 47,176 |
| Center programs | 4,463 | 7,194 |
| Center support designations | 3,560 | 8,113 |
| Operational support designations | - | 47,766 |
| Time restricted funds | 106,845 | 1,000 |
| | $ 247,080 | $ 174,438 |

# Supplementary Information

**United Service Organizations of Illinois, Inc.**

**Schedule of Functional Expenses**
**Year Ended December 31, 2016**

| | Programs - Ongoing | Management and General | Fundraising | Ball Fundraiser | Golf Outing | Clark After Dark | Total |
|---|---|---|---|---|---|---|---|
| Salaries, wages and benefits | $ 728,922 | $ 147,233 | $ 341,794 | $ - | $ - | $ - | $ 1,217,949 |
| Bus and special programs | 305,720 | - | - | - | - | - | 305,720 |
| Food, beverage and supplies | 1,603,242 | - | - | 107,200 | - | - | 1,710,442 |
| Rent | 602,182 | - | - | - | - | - | 602,182 |
| Professional services | 33,157 | 253,315 | 2,686 | 77,170 | 894 | 164 | 367,386 |
| Printing | 2,043 | 455 | 7,965 | 18,535 | 42 | 327 | 29,367 |
| Telephone | 25,174 | 1,576 | 2,701 | - | - | - | 29,451 |
| Travel | 11,669 | 4,160 | 6,854 | - | - | - | 22,683 |
| Postage and shipping | 496 | 121 | 7,265 | 2,883 | - | - | 10,765 |
| Awards and gifts | 1,598 | 664 | 1,482 | 928 | - | - | 4,672 |
| Equipment rental and maintenance | 26,350 | 5,235 | 5,213 | - | - | - | 36,798 |
| Conferences and meetings | 7,675 | 3,691 | 5,426 | - | - | - | 16,792 |
| Office supplies | 404 | 378 | 1,882 | - | - | - | 2,664 |
| Dues and subscriptions | 1,237 | 154 | 50 | - | - | - | 1,441 |
| Advertising | 9,458 | - | 17 | 3,907 | 28 | 3,088 | 16,498 |
| Insurance | 15,998 | 1,251 | 570 | - | - | - | 17,819 |
| Repairs, maintenance and janitorial | 7,668 | - | - | - | - | - | 7,668 |
| Decorations and entertainment | - | - | - | 39,798 | 31,974 | 25,400 | 97,172 |
| Pension | - | 14,343 | - | - | - | - | 14,343 |
| Miscellaneous | 2,329 | 522 | 1,610 | 15,500 | 5,318 | 32,397 | 57,676 |
| | 3,385,322 | 433,098 | 385,515 | 265,921 | 38,256 | 61,376 | 4,569,488 |
| Depreciation and amortization | 18,281 | 629 | - | - | - | - | 18,910 |
| | $ 3,403,603 | $ 433,727 | $ 385,515 | $ 265,921 | $ 38,256 | $ 61,376 | $ 4,588,398 |

**United Service Organizations of Illinois, Inc.**

**Schedule of Functional Expenses**
**Year Ended December 31, 2015**

| | Program Services | Management and General | Fundraising | Annual Ball | Golf Outing | Clark After Dark | Total |
|---|---|---|---|---|---|---|---|
| Salaries, wages and benefits | $ 720,218 | $ 134,856 | $ 329,207 | $ - | $ - | $ - | $ 1,184,281 |
| Bus and special programs | 314,999 | - | - | - | - | - | 314,999 |
| Food, beverage and supplies | 1,740,442 | - | - | 142,605 | - | - | 1,883,047 |
| Rent | 859,152 | - | - | - | - | - | 859,152 |
| Professional services | 32,065 | 212,306 | 3,930 | 56,047 | 1,579 | 479 | 306,406 |
| Printing | 510 | 344 | 7,089 | 4,578 | 41 | 146 | 12,708 |
| Telephone | 24,388 | 2,399 | 3,490 | - | - | - | 30,277 |
| Travel | 16,426 | 2,675 | 5,186 | - | - | - | 24,287 |
| Postage and shipping | 397 | 357 | 5,694 | 1,994 | - | - | 8,442 |
| Awards and gifts | 1,899 | 344 | 1,447 | 728 | - | - | 4,418 |
| Equipment rental and maintenance | 16,957 | 3,363 | 6,112 | - | - | - | 26,432 |
| Conferences and meetings | 6,206 | 7,916 | 2,000 | - | - | - | 16,122 |
| Office supplies | 882 | 1,210 | 2,760 | - | - | - | 4,852 |
| Dues and subscriptions | 995 | 825 | 891 | - | - | - | 2,711 |
| Advertising | 5,889 | - | 482 | 2,339 | 369 | 2,458 | 11,537 |
| Insurance | 12,475 | 2,748 | 564 | - | - | - | 15,787 |
| Repairs, maintenance and janitorial | 9,417 | - | - | - | - | - | 9,417 |
| Decorations and entertainment | - | - | - | 37,991 | 41,923 | 21,752 | 101,666 |
| Pension | - | 31,610 | - | - | - | - | 31,610 |
| Miscellaneous | 10,528 | - | 249 | 17,165 | 4,524 | 27,580 | 60,046 |
| | 3,773,845 | 400,953 | 369,101 | 263,447 | 48,436 | 52,415 | 4,908,197 |
| Depreciation and amortization | 69,693 | - | - | - | - | - | 69,693 |
| | $ 3,843,538 | $ 400,953 | $ 369,101 | $ 263,447 | $ 48,436 | $ 52,415 | $ 4,977,890 |