

**UNITED STATES POWER SQUADRONS ®**

COMBINED FINANCIAL STATEMENTS

Year Ended November 30, 2017

UNITED STATES POWER SQUADRONS ®

CONTENTS

November 30, 2017

	<u>Pages</u>
Independent Auditors' Report	1
Combined Financial Statements:	
Combined Statements of Financial Position	3
Combined Statements of Activities and Changes in Net Assets	4
Combined Statements of Functional Expenses	5
Combined Statements of Cash Flows	6
Notes to Combined Financial Statements	8
Supplementary Financial Information	
Combining Statement of Financial Position	20
Combining Statement of Activities and Changes in Net Assets	21

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
United States Power Squadrons®

We have audited the accompanying combined financial statements of United States Power Squadrons®, which are comprised of the combined statements of financial position as of November 30, 2017, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of United States Power Squadrons® as of November 30, 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

We have previously audited the United States Power Squadrons®' 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended November 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information on pages 20-21 is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

*Williams Dverman Pierce, LLP*

Raleigh, North Carolina  
March 9, 2018

**UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.**  
**COMBINED STATEMENT OF FINANCIAL POSITION**  
**NOVEMBER 30, 2017**  
(with summarized financial information at November 30, 2016)

**ASSETS**

	<u>2017</u>	<u>2016</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 628,617	\$ 880,289
Investments	773,879	708,255
Accounts receivable, Net:		
Related parties	63,099	46,808
Other	15,081	21,374
Grants receivable	492,166	453,250
Pledges receivable	2,016	1,686
Accrued interest receivable	11,875	10,158
Prepaid expenses	190,636	183,974
Inventory	349,444	389,413
Total Current Assets	<u>2,526,813</u>	<u>2,695,207</u>
<b>Fixed Assets:</b>		
Land	100,000	100,000
Buildings and improvements	1,157,898	1,111,579
Furniture and equipment	482,633	470,984
Vehicle	12,445	12,445
Software	116,315	116,315
Simulators	492,407	399,219
	<u>2,361,698</u>	<u>2,210,542</u>
Less Accumulated Depreciation	(1,708,864)	(1,568,114)
Total Fixed Assets, Net	<u>652,834</u>	<u>642,428</u>
<b>Noncurrent Assets:</b>		
Cash, restricted	133,025	47,673
Investments, designated	1,816,684	1,789,112
Pledges receivable	743	1,081
Total Noncurrent Assets	<u>1,950,452</u>	<u>1,837,866</u>
<b>Total Assets</b>	<u>\$ 5,130,099</u>	<u>\$ 5,175,501</u>

See accompanying notes to combined financial statements.

**UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.**  
**COMBINED STATEMENT OF FINANCIAL POSITION, CONTINUED**  
**NOVEMBER 30, 2017**  
(with summarized financial information at November 30, 2016)

**LIABILITIES AND NET ASSETS**

	<b>2017</b>	<b>2016</b>
<b>Current Liabilities:</b>		
Accounts payable:		
Trade	\$ 5,263	\$ 17,216
Related parties	5,649	2,178
Accrued liabilities	42,906	51,293
Members' deposits	10,687	20,254
Deferred dues revenue	467,114	475,701
Note payable	110,816	108,500
Current maturities of obligations under capital leases	8,440	7,944
Total Current Liabilities	650,875	683,086
 <b>Long-Term Liabilities:</b>		
Deferred dues revenue	3,265	3,265
Obligations under capital leases, less current portion	38,286	4,122
Total Long-Term Liabilities	41,551	7,387
 <b>Total Liabilities</b>	692,426	690,473
 <b>Net Assets:</b>		
Unrestricted		
Unrestricted, undesignated	1,997,509	1,966,730
Designated, new squadron development	8,555	8,555
Designated, simulator program fund	21,335	15,165
Designated, endowment fund	417,708	337,605
Total Unrestricted	2,445,107	2,328,055
Temporarily restricted	453,877	646,650
Permanently restricted	1,538,689	1,510,323
Total Net Assets	4,437,673	4,485,028
 <b>Total Liabilities and Net Assets</b>	\$ 5,130,099	\$ 5,175,501

See accompanying notes to combined financial statements.

**UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.**  
**COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2017**  
(with summarized financial information for the year ended November 30, 2016)

	2017				2016
	Unrestricted	Temporarily		Total	Total
		Restricted	Permanently Restricted		
<b>Sales</b>	\$ 691,150	\$ -	\$ -	\$ 691,150	\$ 751,817
<b>Cost of Sales</b>	252,505	-	-	252,505	283,320
<b>Net Revenue From Sales</b>	438,645	-	-	438,645	468,497
<b>Other Revenues and Support:</b>					
Membership dues and fees	1,094,489	-	-	1,094,489	1,101,980
Net investment income	103,787	-	-	103,787	98,008
Realized and unrealized gains (losses)	131,553	-	-	131,553	(31,819)
THE ENSIGN	23,720	-	-	23,720	22,684
Grants	165,674	460,906	-	626,580	596,500
Contributions	106,496	-	28,366	134,862	140,038
NEO sales	19,640	-	-	19,640	14,650
Other income	8,137	-	-	8,137	30,029
Loss on disposal of assets	(7,182)	-	-	(7,182)	-
<b>Total Revenues and Support</b>	2,084,959	460,906	28,366	2,574,231	2,440,567
<b>Net Assets Released From Restrictions</b>	653,679	(653,679)	-	-	-
<b>Expenses:</b>					
Chief commander	49,689	-	-	49,689	63,986
Executive department	38,217	-	-	38,217	37,278
Educational department	55,595	-	-	55,595	75,002
Administrative department	18,276	-	-	18,276	20,836
Treasurer's department	41,229	-	-	41,229	53,373
Secretary's department	13,465	-	-	13,465	18,494
General and standing committees	14,033	-	-	14,033	13,389
Governing Board and Board of Directors	86,560	-	-	86,560	54,740
THE ENSIGN	211,608	-	-	211,608	213,160
Headquarters	1,238,269	-	-	1,238,269	1,218,363
Headquarters' marketing	73,792	-	-	73,792	72,199
Grants	775,526	-	-	775,526	510,529
Fund, Inc.	1,138	-	-	1,138	-
Fundraising	4,189	-	-	4,189	-
<b>Total Expenses</b>	2,621,586	-	-	2,621,586	2,351,349
<b>Change in net assets</b>	117,052	(192,773)	28,366	(47,355)	89,218
Net Assets at the Beginning of Year	2,328,055	646,650	1,510,323	4,485,028	4,395,810
<b>Net Assets at the End of Year</b>	\$ 2,445,107	\$ 453,877	\$ 1,538,689	\$ 4,437,673	\$ 4,485,028

See accompanying notes to combined financial statements.

UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
**COMBINED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED NOVEMBER 30, 2017**  
(with summarized financial information for the year ended November 30, 2016)

2017

	<u>Chief Commander</u>	<u>Executive Department</u>	<u>Educational Department</u>	<u>Administrative Department</u>	<u>Treasurer's Department</u>	<u>Secretary's Department</u>	<u>General and Standing Committees</u>	<u>Governing Board and Board of Directors</u>
Salaries and wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fringe benefits	-	-	-	-	-	-	-	-
Payroll taxes	-	-	-	-	-	-	-	-
Professional fees	-	-	625	-	26,350	-	-	400
Office supplies	142	182	1,945	166	35	68	-	2,134
Photocopy, printing, and stationary	142	179	3,278	8,666	5,422	18	-	1,297
Postage and shipping	2,092	962	5,808	108	273	2,523	76	3,911
Communications	-	-	2,573	-	-	-	-	-
Utilities	-	-	-	-	-	2,165	-	-
Insurance	-	-	-	-	-	-	-	-
Travel	24,054	20,635	16,490	2,431	3,660	3,459	6,086	6,207
Meetings and conferences	22,708	15,368	13,084	5,097	1,278	4,698	7,871	54,662
Awards	72	79	635	1,808	-	159	-	14,670
Advertising	-	-	-	-	-	-	-	-
Dues and subscriptions	-	-	50	-	-	-	-	400
Data processing	-	-	1,013	-	-	-	-	1,613
Outside services	479	-	7,399	-	-	375	-	227
Development and training	-	545	2,695	-	-	-	-	-
Building and equipment maintenance	-	79	-	-	-	-	-	-
Miscellaneous	-	-	-	-	4,211	-	-	1,039
Fundraising	-	-	-	-	-	-	-	-
Depreciation	-	188	-	-	-	-	-	-
	<u>\$ 49,689</u>	<u>\$ 38,217</u>	<u>\$ 55,595</u>	<u>\$ 18,276</u>	<u>\$ 41,229</u>	<u>\$ 13,465</u>	<u>\$ 14,033</u>	<u>\$ 86,560</u>

See accompanying notes to combined financial statements.



UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
 COMBINED STATEMENT OF FUNCTIONAL EXPENSES, CONTINUED  
 FOR THE YEAR ENDED NOVEMBER 30, 2017  
 (with summarized financial information for the year ended November 30, 2016)

	2017 (continued)							2016
	THE ENSIGN	Headquarters	Headquarters' Marketing	Grants	Fund, Inc.	Fundraising	Total	Total
Salaries and wages	\$ 119,490	\$ 511,009	\$ 59,448	\$ 64,685	\$ -	\$ -	\$ 754,632	\$ 809,470
Fringe benefits	6,929	59,558	2,184	3,264	-	-	71,935	87,276
Payroll taxes	9,100	38,833	4,684	1,822	-	-	54,439	60,316
Professional fees	-	-	-	225	-	-	27,600	30,957
Office supplies	141	13,244	235	7,024	-	-	25,316	18,557
Photocopy, printing, and stationary	29,298	(4,796)	97	6,049	-	-	49,650	36,569
Postage and shipping	24,030	123,433	248	8,018	-	-	171,482	192,481
Communications	716	14,613	1,234	-	-	-	19,136	31,390
Utilities	695	14,525	-	-	-	-	17,385	18,128
Insurance	-	126,199	-	1,729	-	-	127,928	133,443
Travel	775	2,341	768	7,683	-	-	94,589	113,749
Meetings and conferences	1,437	2,768	1,518	22,316	1,138	-	153,943	126,029
Awards	-	-	-	1,597	-	-	19,020	19,226
Advertising	-	-	-	8,638	-	-	8,638	6,165
Dues and subscriptions	157	882	300	-	-	-	1,789	2,587
Data processing	6,085	117,231	881	8,851	-	-	135,674	126,313
Outside services	10,508	6,585	1,960	592,525	-	-	620,058	302,257
Development and training	-	-	-	10,850	-	-	14,090	6,285
Building and equipment maintenance	909	32,762	-	13,534	-	-	47,284	41,795
Miscellaneous	540	24,016	235	834	-	-	30,875	32,298
Fundraising	-	-	-	-	-	4,189	4,189	-
Depreciation	798	155,066	-	15,882	-	-	171,934	156,058
	<u>\$ 211,608</u>	<u>\$ 1,238,269</u>	<u>\$ 73,792</u>	<u>\$ 775,526</u>	<u>\$ 1,138</u>	<u>\$ 4,189</u>	<u>\$ 2,621,586</u>	<u>\$ 2,351,349</u>

See accompanying notes to combined financial statements.

**UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.**  
**COMBINED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2017**  
(with summarized financial information for the year ended November 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities:</b>		
Cash received from members, contributors, and grantors	\$ 2,517,025	\$ 2,632,844
Cash paid to suppliers and employees, and grantees	(2,694,374)	(2,362,802)
Interest and dividends received	99,166	98,258
Interest paid	(2,314)	(3,233)
Net Cash (Used in) Provided by Operating Activities	<u>(80,497)</u>	<u>365,067</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of investments	(222,738)	(173,437)
Proceeds from sale of investments	175,743	119,501
Purchases of fixed assets	(143,696)	(32,777)
Proceeds from sale of fixed assets	900	-
Net Cash Used in Investing Activities	<u>(189,791)</u>	<u>(86,713)</u>
<b>Cash Flows from Financing Activities:</b>		
Contributions restricted for permanent endowment	28,366	30,222
Repayments of capital lease obligations	(12,066)	(7,560)
Proceeds from issuance of note payable	110,816	108,500
Repayments of note payable	(108,500)	(134,611)
Net Cash Provided by (Used in) Financing Activities	<u>18,616</u>	<u>(3,449)</u>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<u>(251,672)</u>	<u>274,905</u>
Cash and Cash Equivalents, Beginning of Year	<u>880,289</u>	<u>605,384</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 628,617</u>	<u>\$ 880,289</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Non-Cash Investing and Financing Activities		
Capital lease obligation incurred for use of equipment	<u>\$ 46,726</u>	<u>\$ -</u>

See accompanying notes to combined financial statements.

**UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.**  
**COMBINED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2017**  
(with summarized financial information for the year ended November 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of change in Net Assets to Net Cash</b>		
<b>(Used in) Provided by Operating Activities:</b>		
Change in net assets	\$ (47,355)	\$ 89,218
Adjustment to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	171,934	156,058
Realized/unrealized gains (losses) on investments	(131,553)	31,819
Loss on disposal of assets	7,182	-
Change in discount on pledges	8	(12)
Contributions restricted for permanent endowment	(28,366)	(30,222)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts and grants receivable	(48,914)	3,978
Pledges receivable	-	908
Accrued interest receivable	(1,717)	744
Prepaid expenses	(6,662)	(13,328)
Inventory	39,969	98,012
Increase (decrease) in:		
Accounts payable	(8,482)	(13,527)
Accrued liabilities	(8,387)	29,661
Members' deposits	(9,567)	(3,749)
Deferred dues revenue	(8,587)	15,507
Net cash (used in) provided by operating activities	<u>\$ (80,497)</u>	<u>\$ 365,067</u>

See accompanying notes to combined financial statements.

UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Organization and Nature of Activities:

United States Power Squadrons ® ("USPS") was organized in 1914. Its mission is to promote recreational boating safety through education and civic activities while providing fellowship for its members. USPS' headquarters serves 355 squadrons organized into 31 districts. USPS offers courses in boating safety and many other topics related to boating, as well as providing members with a quarterly publication called THE ENSIGN to keep members updated on boating information and activities.

On May 17, 2007, USPS-EC Holdings, Inc., a wholly owned subsidiary of USPS, was formed to own 51% of USPS-EC, LLC. USPS-EC, LLC was established to operate an e-commerce enterprise. There was no activity in either entity for the year ended November 30, 2017.

On September 5, 2017, United States Power Squadrons Endowment Fund, Inc. ("Fund, Inc."), a related entity, was formed exclusively for the support of the United States Power Squadrons ®. Fund, Inc. was formed by transferring assets exclusively from USPS.

Principles of Combination:

The accompanying combined financial statements include the accounts of USPS and Fund, Inc. ("Organizations"). All significant intercompany transactions and balances have been eliminated in the combined financial statements.

Basis of Accounting:

The combined financial statements of USPS and Fund, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. The basis of accounting conforms to accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents:

Cash and cash equivalents consist of cash in checking and money market accounts. Restricted cash consists of permanently restricted endowment contributions that have not yet been transferred to investment accounts.

During the year ended November 30, 2017, the Organizations received cash payments of \$594,850 on grants awarded, which was less than grant disbursements of \$906,074.

UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued):

Restricted Cash:

Included in restricted cash are amounts held for endowment that have not yet been invested.

Investments:

The Organizations report investments in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification. This topic requires investments in equity securities with readily determinable fair values and all investments in debt securities to be measured at fair value at the balance sheet date. Gains and losses on investments are reported in the combined statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations.

Investment income is reflected in the combined statement of activities and changes in net assets, net of management fees. Management fees were \$12,381 for the year ended November 30, 2017.

Accounts Receivable:

Accounts receivable consist primarily of amounts receivable from squadrons or districts for membership dues, educational or other boating materials and supplies. USPS maintains an allowance for potentially uncollectible accounts. When management determines that a receivable is uncollectible the balance is removed from the accounts receivable balance and is charged against the allowance. Subsequent recoveries of amounts previously written off are credited directly to earnings. The allowance for doubtful accounts at November 30, 2017 was \$14,200.

Grants Receivable:

Grants that are received with donor restrictions are recorded as temporarily restricted. One grantor, United States Coast Guard, represented approximately 93% of grants receivable as of November 30, 2017.

UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued):

Inventory:

USPS values its inventory at the lower of the weighted average cost or market using the first-in, first-out method. Inventory consists primarily of course kits, supplies, and exams related to courses offered by USPS. Management analyzes on-hand inventory for potential shrinkage and obsolescence. Management classifies obsolete inventory as items with no sales in the past twelve months.

Fixed Assets:

Fixed assets are stated at cost. USPS capitalizes property and equipment purchases in excess of \$500. Depreciation is computed using the straight-line method based on the following estimated useful lives:

Buildings and improvements	5 to 40 years
Furniture and equipment	3 to 12 years
Vehicle	5 years
Software	5 years
Simulators	5 years

Depreciation expense totaled \$171,934 for the year ended November 30, 2017.

Revenue and Support:

As required by the Not-for-Profit Entities Topic of the FASB Accounting Standards Codification, the Organization reports and classifies information regarding its financial position and activities as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations are classified as unrestricted net assets.

Temporarily Restricted Net Assets - Net assets that are subject to donor-imposed stipulations that may or will be met either by action of the Organization and/or the passage of time are classified as temporarily restricted net assets.

Permanently Restricted Net Assets - Net assets that are required by donor-imposed stipulations to be maintained permanently by the Organization are classified as permanently restricted net assets.

UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued):

Revenue and Support (Continued):

USPS has two primary sources of grant revenue. Grant revenue received from the United States Coast Guard is a lump sum that is awarded to be expended over a certain period of time. This revenue is recorded when it has been awarded. At November 30, 2017, unspent funds related to grant revenue received from the United States Coast Guard totaled \$425,694. Grant revenue from the United States Power Squadrons Educational Fund, a related party, is recognized after an application has been made for reimbursement.

Contributions:

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Donated Services:

Various contributed services are performed for USPS and Fund, Inc. by volunteer members. These services are significant and form an integral part of the efforts of the Organizations, but these services do not meet the criteria for recognition as contributed services.

During the year ended November 30, 2017, the Organizations received donated professional services totaling \$84,149 for software support and training. These professional services are included in contribution income and data processing expenses on the accompanying combined statement of activities and changes in net assets.

Shipping and Handling Fees and Costs:

The Organizations charge shipping and handling fees for its merchandise based on price levels or actual shipping costs, depending on the type of material shipped. Shipping and handling fees are included in sales and shipping and handling costs are recorded as costs of goods sold on the combined statement of activities and changes in net assets.

UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued):

Advertising Costs:

The Organizations expense advertising costs as incurred. Advertising expense for the year ended November 30, 2017 was \$8,638.

Income Taxes and Uncertain Tax Positions:

The Organizations are non-profit organizations exempt from federal and state income taxation under section 501(c)(3) of the Internal Revenue Code. Activities of the Organizations which are considered to be unrelated business income under tax law are subject to tax which is recognized as a current expense. No such tax has been recognized as of November 30, 2017.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organizations and recognize a tax liability (or asset) if the Organizations have taken an uncertain position that more likely than not would be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Organizations, and has concluded that as of November 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the combined financial statements. The Organizations are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2014.

Estimates:

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

Reclassifications:

Certain amounts in the 2016 financial statements have been reclassified to conform with the 2017 presentation with no effect on previously reported net assets.

2. Concentrations of Credit Risk:

The Organizations maintain cash balances at financial institutions located in Raleigh, North Carolina. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At November 30, 2017, the Organizations' uninsured cash balances were \$475,249.



UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

Money market funds and marketable securities with a securities dealer totaling \$2,602,929 at November 30, 2017 were insured by the Securities Investor Protection Corporation for certain acts.

3. Pledges Receivable:

Unconditional promises to give at November 30, 2017 were as follows:

Receivable in less than one year	\$ 2,016
Receivable in one to five years	438
Receivable in more than five years	<u>332</u>
Total unconditional promises to give	2,786
Less discounts to net present value	<u>(27)</u>
Net unconditional promises to give at November 30, 2017	<u><u>\$ 2,759</u></u>

The discount rate used on long-term promises to give was 1.1% at November 30, 2017.

4. Investments:

The Organizations' endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organizations have interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organizations classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organizations in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organizations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organizations, and (7) the Organizations' investment policies.

UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

4. Investments (Continued):

Investment Return Objectives, Risk Parameters and Strategies:

The investment objectives of the Organizations are to manage the portfolio in a manner that will maximize the benefits intended by donors, support the programs of the Organizations, generate sufficient long-term growth of capital without undue exposure to risk, provide a sustainable level of spending, as well as enhance the real (adjusted for inflation) purchasing power of the investments.

The goal is to achieve an average return (net of fees and expenses) of at least the level of spending adopted by the Organizations annually to support USPS' programs over the long term plus the rate of inflation on an annualized basis measured by the Consumer Price Index.

The Organizations' investment objective is a compromise between the need for current income and the long-term growth of assets to keep pace with inflation. Due to USPS being an institution perpetual in nature, the portfolio is viewed long-term in its entirety, avoiding decisions based solely on short-term concerns and individual investments. The inevitability of the short-term market fluctuations is tolerable to allow for real growth of assets. A diversified investment structure is utilized in order to provide participation in rising markets, while mitigating risk in falling markets.

Disciplined management of the asset mix among classes of investments is both a necessary and desirable responsibility. In the allocation of assets, diversification of investments among asset classes that are not similarly affected by economic, political, or social developments is expected. The general policy is to diversify investments so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class of investment category. The diversification does not necessarily depend upon the number of industries or companies in a portfolio or their particular location, but rather upon the broad nature of such investments and the factors that may influence them.

The asset allocation will be managed based on determination of market valuations and must remain within the ranges specified at all times. Prudence will be pursued in rebalancing the portfolio as needed.

The policy benchmark is to achieve a total return, net of fees, in excess of spending and inflation.

UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

4. Investments (Continued):

Spending Policy:

The spending policy attempts to balance the long-term objective of maintaining the purchasing power of USPS with the goal of providing a sustainable level of spending. Subject to gift instruments and statutory requirements, each year's distribution is limited to five percent of the fund value, not to exceed the accumulated income of the fund value, as determined by the fund's market value at the beginning of the Organizations' fiscal year. Each year's distribution is at the sole discretion of USPS' Board of Directors. Additional funds may be distributed, as noted in the Endowment Fund Policy, by recommendation of USPS' Finance Committee or Board of Directors and approved by USPS' Governing Board or by a majority vote of USPS' Board of Directors and Chairmen of the General and Standing Committees. The amount to be spent in the coming year is calculated each year and is reviewed and approved by USPS' Board of Directors annually.

Endowment net asset composition by type of fund as of November 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Donor-restricted funds	\$ -	\$ -	\$ 1,538,689	\$ 1,538,689
Board-designated funds	<u>417,708</u>	<u>-</u>	<u>-</u>	<u>417,708</u>
Total	<u>\$ 417,708</u>	<u>\$ -</u>	<u>\$ 1,538,689</u>	<u>\$ 1,956,397</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Endowment net assets, beginning of year	\$ 337,605	\$ -	\$ 1,510,323	\$ 1,847,928
Contributions		-	28,366	28,366
Investment income	69,743	-	-	69,743
Net appreciation of securities	90,360	-	-	90,360
Amounts expended	<u>(80,000)</u>	<u>-</u>	<u>-</u>	<u>(80,000)</u>
Endowment net assets, end of year	<u>\$ 417,708</u>	<u>\$ -</u>	<u>\$ 1,538,689</u>	<u>\$ 1,956,397</u>

The Endowment Fund's principle balance was \$1,518,689 and the accumulated investment income earned was \$417,708 as of November 30, 2017.

UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

5. Fair Value Measurements:

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs and have the lowest priority. The Organizations use appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organizations measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Assets listed below are measured at fair value November 30, 2017:

	<u>Fair Value Measurements Using:</u>			
	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Stocks	\$ 2,004,625	\$ 2,004,625	\$ -	\$ -
Corporate Bonds Publicly Traded	285,221	-	285,221	-
Partnerships	21,341	21,341	-	-
Exchange Traded Funds	174,995	174,995	-	-
Preferred Stocks	<u>104,381</u>	<u>104,381</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<u>\$ 2,590,563</u>	<u>\$ 2,305,342</u>	<u>\$ 285,221</u>	<u>\$ -</u>

6. Note Payable:

USPS entered into a financing arrangement for insurance during the year ended November 30, 2017. The note bears interest at the rate of 4.58% and is payable in 9 monthly installments of \$12,549 of principal and interest. At November 30, 2017, the note payable had an outstanding balance of \$110,816.

UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

7. Capital Leases:

USPS leases office equipment under a capital lease. The asset and liability under the capital lease are recorded at the lower of present value of the minimum lease payments or the fair value of the asset. The capital lease is amortized over the lesser of the lease term or its estimated useful life. Amortization expense for the capital lease is included in depreciation expense.

Equipment held under the capital lease and the related accumulated depreciation at November 30, 2017 is summarized as follows:

Furniture and equipment	\$ 46,726
Accumulated depreciation	<u>(1,557)</u>
	<u>\$ 45,169</u>

The present value of future minimum capital lease payments is as follows:

<u>Year ending November 30:</u>	<u>Amount</u>
2018	\$ 10,620
2019	10,620
2020	10,620
2021	10,620
2022	<u>10,620</u>
Total minimum lease payments	53,100
Less amount representing interest	<u>(6,374)</u>
Present value of minimum lease payments	46,726
Less current maturities	<u>(8,440)</u>
	<u>\$ 38,286</u>

Interest expense for capital leases was \$2,314 for the year ended November 30, 2017.

8. Operating Leases:

USPS leases office equipment under a noncancelable operating lease with terms of more than one year.

The following is a schedule of future minimum lease payments of the noncancelable operating leases.

<u>Year ending November 30:</u>	<u>Amount</u>
2018	<u>\$ 3,904</u>

Lease payments made for the year ended November 30, 2017 totaled \$6,483.

UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

9. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes at November 30, 2017:

OMC Foundation – Marine Industry Grant – Boating Safety Education	\$ 6,644
New Squadron Development	14,941
Boy Scout Jamboree	13,242
U.S. Coast Guard Grant - Boat Handling Simulator IV	6,459
Media Library 3.0	54,149
Year-Round Safe Boating Campaign 1.0	29,933
Hispanic Youth Boating Manual	33,839
U.S. Coast Guard Grant – Boat Handling Simulator V	142,707
Year-Round Safe Boating Campaign 2.0	<u>151,963</u>
	<u>\$ 453,877</u>

10. Permanently Restricted Net Assets:

At November 30, 2017, permanently restricted net assets are restricted to:

Investment in perpetuity, the income from which is expendable to support:

Projects and purposes that benefit the Organization, including general operations	\$ 1,518,689
Purchase of insignia for designated Organization officers	<u>20,000</u>
	<u>\$ 1,538,689</u>

11. Employee Benefit Plan:

USPS has a defined contribution retirement plan covering substantially all employees with at least one year of service and who have worked a minimum of one thousand hours per year. USPS may make discretionary contributions. Discretionary contributions were \$13,544 for the year ended November 30, 2017.

UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

12. Functional Allocation of Expenses:

The costs of providing the various programs and activities have been summarized on a functional basis in the combined statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The following summarizes the amount of expenses allocated to program and supporting services for the year ended November 30, 2017:

Program Services	\$ 2,281,905
Management and general	335,492
Fundraising	<u>4,189</u>
	<u>\$ 2,621,586</u>

13. Related Party Transactions:

USPS was awarded various grants by the United States Power Squadrons Educational Fund, a related party. Grant revenue is recognized after an application has been made for reimbursement. During the year, receipts related to grants received from the Educational Fund totaled \$147,664. Grants receivable from the United States Power Squadrons Educational Fund totaled \$32,166 at November 30, 2017.

14. Subsequent Events:

The Organizations have evaluated subsequent events through March 9, 2018, the date which the combined financial statements were available to be issued. No significant subsequent events have been identified by management.

**SUPPLEMENTAL INFORMATION**



**UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.**  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
**NOVEMBER 30, 2017**

<u>ASSETS</u>	<u>United States Power Squadrons ®</u>	<u>USPS Endowment Fund, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 628,617	\$ -	\$ -	\$ 628,617
Investments	773,879	-	-	773,879
Accounts receivable, Net:				
Related parties	63,099	24,243	(24,243)	63,099
Other	15,081	-	-	15,081
Grants receivable	492,166	-	-	492,166
Pledges receivable	2,016	-	-	2,016
Accrued interest receivable	7,042	4,833	-	11,875
Prepaid expenses	190,636	-	-	190,636
Inventory	349,444	-	-	349,444
Total Current Assets	<u>2,521,980</u>	<u>29,076</u>	<u>(24,243)</u>	<u>2,526,813</u>
<b>Fixed Assets:</b>				
Land	100,000	-	-	100,000
Buildings and improvements	1,157,898	-	-	1,157,898
Furniture and equipment	482,633	-	-	482,633
Vehicle	12,445	-	-	12,445
Software	116,315	-	-	116,315
Simulators	492,407	-	-	492,407
	<u>2,361,698</u>	<u>-</u>	<u>-</u>	<u>2,361,698</u>
Less Accumulated Depreciation	<u>(1,708,864)</u>	<u>-</u>	<u>-</u>	<u>(1,708,864)</u>
Total Fixed Assets, Net	<u>652,834</u>	<u>-</u>	<u>-</u>	<u>652,834</u>
<b>Noncurrent Assets:</b>				
Cash, restricted	46,051	86,974	-	133,025
Investments, designated	-	1,816,684	-	1,816,684
Pledges receivable	743	-	-	743
Total Noncurrent Assets	<u>46,794</u>	<u>1,903,658</u>	<u>-</u>	<u>1,950,452</u>
<b>Total Assets</b>	<u>\$ 3,221,608</u>	<u>\$ 1,932,734</u>	<u>\$ (24,243)</u>	<u>\$ 5,130,099</u>

**UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.**  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
**NOVEMBER 30, 2017**

<u>LIABILITIES AND NET ASSETS</u>	<u>United States Power Squadrons ®</u>	<u>USPS Endowment Fund, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
<b>Current Liabilities:</b>				
Accounts payable:				
Trade	\$ 5,263	\$ -	\$ -	\$ 5,263
Related parties	29,892	-	(24,243)	5,649
Accrued liabilities	42,906	-	-	42,906
Members' deposits	10,687	-	-	10,687
Deferred dues revenue	467,114	-	-	467,114
Note payable	110,816	-	-	110,816
Current maturities of obligations under capital leases	8,440	-	-	8,440
Total Current Liabilities	<u>675,118</u>	<u>-</u>	<u>(24,243)</u>	<u>650,875</u>
<b>Long-Term Liabilities:</b>				
Deferred dues revenue	3,265	-	-	3,265
Obligations under capital leases, less current portion	38,286	-	-	38,286
Total Long-Term Liabilities	<u>41,551</u>	<u>-</u>	<u>-</u>	<u>41,551</u>
<b>Total Liabilities</b>	<u>716,669</u>	<u>-</u>	<u>(24,243)</u>	<u>692,426</u>
<b>Net Assets:</b>				
Unrestricted				
Unrestricted, undesignated	1,997,509	-	-	1,997,509
Designated, new squadron development	8,555	-	-	8,555
Designated, simulator program fund	21,335	-	-	21,335
Designated, endowment fund	3,663	414,045	-	417,708
Total Unrestricted	<u>2,031,062</u>	<u>414,045</u>	<u>-</u>	<u>2,445,107</u>
Temporarily restricted	453,877	-	-	453,877
Permanently restricted	20,000	1,518,689	-	1,538,689
<b>Total Net Assets</b>	<u>2,504,939</u>	<u>1,932,734</u>	<u>-</u>	<u>4,437,673</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 3,221,608</u>	<u>\$ 1,932,734</u>	<u>\$ (24,243)</u>	<u>\$ 5,130,099</u>

**UNITED STATES POWER SQUADRONS ® AND USPS ENDOWMENT FUND, INC.**  
**COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED NOVEMBER 30, 2017**

	<b>United States</b>	<b>USPS</b>		
	<b>Power</b>	<b>Endowment</b>		
	<b>Squadrons ®</b>	<b>Fund, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Sales</b>	\$ 691,150	\$ -	\$ -	\$ 691,150
<b>Cost of Sales</b>	252,505	-	-	252,505
<b>Net Revenue From Sales</b>	438,645	-	-	438,645
<b>Other Revenues and Support:</b>				
Membership dues and fees	1,094,489	-	-	1,094,489
Net investment income	98,428	5,359	-	103,787
Realized and unrealized gains	100,163	31,390	-	131,553
THE ENSIGN	23,720	-	-	23,720
Grants	626,580	-	-	626,580
Contributions	134,862	1,900,581	(1,900,581)	134,862
NEO sales	19,640	-	-	19,640
Other income	7,406	731	-	8,137
Loss on disposal of assets	(7,182)	-	-	(7,182)
<b>Total Revenues and Support</b>	2,536,751	1,938,061	(1,900,581)	2,574,231
<b>Expenses:</b>				
Chief commander	49,689	-	-	49,689
Executive department	38,217	-	-	38,217
Educational department	55,595	-	-	55,595
Administrative department	18,276	-	-	18,276
Treasurer's department	41,229	-	-	41,229
Secretary's department	13,465	-	-	13,465
General and standing committees	14,033	-	-	14,033
Governing Board and Board of Directors	86,560	-	-	86,560
THE ENSIGN	211,608	-	-	211,608
Headquarters	1,238,269	-	-	1,238,269
Headquarters' marketing	73,792	-	-	73,792
Grants	775,526	-	-	775,526
Contributions	1,900,581	-	(1,900,581)	-
Fund, Inc.	-	1,138	-	1,138
Fundraising	-	4,189	-	4,189
<b>Total Expenses</b>	4,516,840	5,327	(1,900,581)	2,621,586
<b>Change in net assets</b>	(1,980,089)	1,932,734	-	(47,355)
Net Assets at the Beginning of Year	4,485,028	-	-	4,485,028
<b>Net Assets at the End of Year</b>	<u>\$ 2,504,939</u>	<u>\$ 1,932,734</u>	<u>\$ -</u>	<u>\$ 4,437,673</u>