FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

THE UNITED STATES PONY CLUBS, INC.

TABLE OF CONTENTS
DECEMBER 31, 2012 AND 2011

CPAs / ADVISORS

blue

Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

To the Board of Governors
The United States Pony Clubs, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The United States Pony Clubs, Inc., Inc. (USPC), which comprises the statements of financial position as of December 31, 2012 and 2011, and the related statement of activities and changes in net assets, 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 our 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 The United States Pony Clubs, Inc., Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

Lexington, Kentucky
May 17, 2013

THE UNITED STATES PONY CLUBS, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 544,442	$ 722,506
Investments	826,945	1,000,017
Accounts receivable	18,669	7,288
Pledges receivable	-0-	42,250
Grant receivable	23,000	-0-
Inventory	66,939	83,769
Prepaid expenses	43,816	77,906
Total current assets	1,523,811	1,933,736
Property and equipment, net	1,695,491	1,617,070
Other assets:		
Cash surrender value of life insurance	166,728	161,507
Investments:		
Designated	1,657,859	1,464,418
Temporarily restricted	357,628	371,489
Total other assets	2,182,215	1,997,414
Total assets	$ 5,401,517	$ 5,548,220
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 129,869	$ 115,582
Tenant deposits	10,835	10,165
Current portion of long-term debt	30,985	26,680
Deferred income:		
Membership dues	735,110	793,010
Annual meeting	85,063	89,929
Other	32,670	20,220
Total current liabilities	1,024,532	1,055,586
Long-term liabilities:		
Long-term debt	312,551	343,859
Total liabilities	1,337,083	1,399,445
Net assets:		
Unrestricted:		
Undesignated	2,009,604	2,312,868
Designated	1,657,859	1,464,418
Total unrestricted	3,667,463	3,777,286
Temporarily restricted	396,971	371,489
Total net assets	4,064,434	4,148,775
Total liabilities and net assets	$ 5,401,517	$ 5,548,220

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Total
Support and Revenues:			
Advertising	$ 28,674	$	$ 28,674
Annual meeting	108,591		108,591
Bookstore	195,835		195,835
Contributions and support	157,877	31,001	188,878
Championships and events	216,154		216,154
Grants		44,855	44,855
Instruction	108,745		108,745
Insurance	222,985		222,985
International exchange	9,598		9,598
Investment income	47,128	19,314	66,442
Membership dues and fees	970,661		970,661
National Youth Congress	15,816		15,816
Rent	131,350		131,350
In-kind revenue	2,634		2,634
Other	10,711		10,711
Unrealized gain	236,417	44,173	280,590
Realized loss	(23,111)	(22,524)	(45,635)
Net assets released from restrictions, satisfaction of program restrictions	91,337	(91,337)	-0-
Total support and revenues	2,531,402	25,482	2,556,884
Operating Expenses:			
Program expenses:			
Activities	323,291		323,291
Annual meeting	122,966		122,966
Bookstore	303,020		303,020
Communications	236,941		236,941
Instruction	328,940		328,940
Insurance	209,940		209,940
Member services	260,511		260,511
Total program expenses	1,785,609	-0-	1,785,609
Management and general	698,075		698,075
Fundraising	157,541		157,541
Total operating expenses	2,641,225	-0-	2,641,225
Change in net assets	(109,823)	25,482	(84,341)
Net assets, beginning of year	3,777,286	371,489	4,148,775
Net assets, end of year	$ 3,667,463	$ 396,971	$ 4,064,434

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Total
Support and Revenues:			
Advertising	$ 18,763	$	$ 18,763
Annual meeting	103,355		103,355
Bookstore	217,011		217,011
Contributions and support	155,342	67,449	222,791
Championships and events	570,602		570,602
Instruction	123,500		123,500
Insurance	229,121		229,121
International exchange	42,320		42,320
Investment income	43,833	14,595	58,428
Membership dues and fees	954,615		954,615
National Youth Congress	8,620		8,620
Rent	134,565		134,565
Other	44,676		44,676
Unrealized loss	(253,326)	(13,674)	(267,000)
Realized gain/(loss)	108,809	(2,809)	106,000
Net assets released from restrictions, satisfaction of program restrictions	47,430	(47,430)	-0-
Total support and revenues	2,549,236	18,131	2,567,367
Operating Expenses:			
Program expenses:			
Activities	610,995		610,995
Annual meeting	81,508		81,508
Bookstore	321,640		321,640
Communications	217,119		217,119
Instruction	333,631		333,631
Insurance	229,306		229,306
Member services	242,013		242,013
Total program expenses	2,036,212	-0-	2,036,212
Management and general	587,083		587,083
Fundraising	141,606		141,606
Total operating expenses	2,764,901	-0-	2,764,901
Change in net assets	(215,665)	18,131	(197,534)
Net assets, beginning of year	3,992,951	353,358	4,346,309
Net assets, end of year	$ 3,777,286	$ 371,489	$ 4,148,775

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ (84,341)	$ (197,534)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	64,129	75,526
Unrealized (gains) losses on investments	(280,590)	267,000
Realized (gains) losses on investments	45,635	(106,000)
Donated securities	-0-	(1,004)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(11,381)	5,354
Pledges receivable	42,250	2,500
Grants receivable	(23,000)	-0-
Inventory	16,830	24,225
Prepaid expenses	34,090	46,026
Other assets	(5,221)	(5,046)
Increase (decrease) in liabilities:		
Accounts payable and other accrued liabilities	14,287	30,995
Tenant deposits	670	-0-
Deferred income	(50,316)	(20,470)
Net cash flows from operating activities	(236,958)	121,572
Cash flows from investing activities:		
Proceeds from investments	939,979	843,726
Purchases of investments	(711,532)	(905,481)
Purchases of property and equipment	(6,077)	-0-
Construction in progress	(136,473)	-0-
Net cash flows from investing activities	85,897	(61,755)
Cash flows from financing activities:		
Principal payments on long-term debt	(27,003)	(23,154)
Net cash flows from financing activities	(27,003)	(23,154)
Net change in cash	(178,064)	36,663
Cash and cash equivalents, beginning of year	722,506	685,843
Cash and cash equivalents, end of year	$ 544,442	$ 722,506

Supplemental disclosures of cash flow information:

	2012	2011
Cash paid for interest expense	$ 27,003	$ 24,911

Supplemental disclosures of non-cash investing and financing activities:

	2012	2011
Donated securities	$ -0-	$ 1,004

See accompanying notes to the
financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of The United States Pony Clubs, Inc., Inc. (USPC) is presented to assist in understanding the USPC's financial statements. The financial statements and notes are representations of the USPC's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Activities

The USPC is a non-profit organization incorporated under the laws of the Commonwealth of Kentucky. The USPC develops character, leadership, confidence, and a sense of community in youth through a program that teaches the care of horses and ponies, riding, and mounted sports.

Basis of Presentation

The financial statements of the USPC have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. USPC’s resources are classified for accounting and internal reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund. The combined assets, liabilities, and net assets, after elimination of material interfund balances, transactions and transfers, are presented in the aggregate for purposes of these financial statements. Accordingly, net assets and changes therein are classified as follows:

- *Unrestricted-undesignated net assets* – net assets that are not subject to donor-imposed stipulations or USPC’s restrictions.

- *Unrestricted-designated net assets* – net assets subject to USPC’s restrictions for board designated restrictions.

- *Temporarily restricted net assets* – net assets subject to donor-imposed stipulations that may or will be met either by actions of USPC and/or the passage of time.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets occur when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed and are reported as reclassifications between the applicable classes of net assets.

Cash and Cash Equivalents

Cash equivalents include investments with original maturities of three months or less and which are readily convertible to cash. Cash and money market funds held in investment accounts are considered an investment and are not included in cash equivalents.

Investments

Investments are stated at fair market value. Income derived from realized and unrealized investment gains and losses are accounted for in unrestricted net assets.

Accounts Receivables

USPC's management analyzes the allowance for doubtful accounts annually. If the allowance is considered inadequate, the allowance and bad debt expense are increased when that determination is made. USPC deemed all accounts to be fully collectible at December 31, 2012 and 2011, therefore, no allowance for doubtful accounts is necessary.

Pledges Receivable

Pledges receivable are carried at the present value of estimated future cash flows. USPC considers all pledges receivable to be fully collectible within one year, therefore, no allowance for uncollectible pledges exist. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance.

Inventory

Inventory consists principally of books and is stated at the lower of average cost or market, using the average cost method which approximates actual costs.

Prepaid Expenses

Prepaid expenses consist of costs paid relating to the following financial year for items such as insurance premiums.

Property and Equipment

Property is stated at cost, if purchased, and at fair market value on the date of gift, if donated. Property with an individual cost of $1,000 or more is capitalized. Depreciation is calculated using the straight-line method over the assets' estimated useful life, ranging from three to thirty-nine years. Depreciation expense was $64,129 and $75,526 for 2012 and 2011, respectively.

Construction in progress consists of costs incurred on projects that have not been completed. USPC begins depreciating completed projects in the month they are placed in service.

Deferred Income

Deferred income, consisting of dues, insurance, sustaining memberships, annual meeting, and other income, represents revenues collected in advance of the period or the event to which it relates.

Membership Dues, Insurance, and Initiation Fees

Membership dues and insurance are recognized as revenue in the applicable membership period. Initiation and club registration fees are recorded as revenue in the period when the applying club is approved.

Grants

Grants are recognized as revenue in the period when the award is made by the grantor and are recorded as unrestricted or temporarily restricted support based on the existence and nature of any grantor restrictions.

In-Kind Contributions

USPC may receive material without payment or compensation for the championships. Materials and other noncash donations are recorded at estimated fair value determined at the date of donation.

During 2012 and 2011, USPC received donated services. Volunteers plan, organize, and administer certain committees, activities, and the annual event. Because these services do not require specialized skills they are not recorded in the financial statements.

Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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 vary from the estimates that were used.

Reclassification

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

Subsequent Events

USPC has evaluated events or transactions occurring subsequent to the statement of financial position date for recognition and disclosure in the accompanying financial statements through May 17, 2013, the date which the financial statements were available to be issued.

2. PLEDGES RECEIVABLE

Unconditional pledges receivable are as follows as of December 31:

	2012	2011
Intervet	$ -0-	$ 10,000
Dover Saddlery	-0-	9,750
Wintec	-0-	16,000
Devonaire	-0-	6,500
	$ -0-	$ 42,250
Receivable in less than one year	$ -0-	$ 42,250
Total unconditional pledges receivable	$ -0-	$ 42,250

3. GRANT RECEIVABLE

The grant receivable consisted of $23,000 due from the Omaha Equestrian Foundation as of December 31, 2012.

4. PROPERTY AND EQUIPMENT, NET

Property consists of the following at December 31:

	2012	2011
Furniture and fixtures	$ 181,658	$ 232,498
Computer equipment and software	290,937	234,020
Building and improvements	1,996,492	1,996,492
Construction in progress	136,473	-0-
	2,605,560	2,463,010
Less accumulated depreciation	(910,069)	(845,940)
Total property and equipment, net	$ 1,695,491	$ 1,617,070

At December 31, 2012, USPC had a construction and an installation project in progress. Management expects the projects to be completed during the year ended December 31, 2013, at which time total costs incurred will be reclassified from construction in progress to furniture and fixtures and computer equipment and software and depreciated accordingly. Total contract amounts for the construction and installation projects are $296,563.

Certain corrective reclassifications were made totaling $50,840 from furniture and fixtures to the computer equipment and software category during the year ended December 31, 2012.

5. INVESTMENTS

Investments are as follows as of December 31:

	2012	2011
Money market funds	$ 294,467	$ 197,882
Mutual funds	739,611	823,364
Corporate securities	1,808,354	1,814,678
Total investments	$ 2,842,432	$ 2,835,924

Investment income earned by these investments for the year ended December 31, 2012 is reported net of related management fees of $40,100 and net of investment foreign taxes of $1,912.

Investment income earned by these investments for the year ended December 31, 2011 is reported net of related management fees of $42,427 and net of investment foreign taxes of $814.

6. FAIR VALUE MEASUREMENTS

The Fair Value Measurements Topic of the Financial Accounting Standards Board Accounting Standards Codification provides a comprehensive framework for measuring fair value and includes required disclosures concerning fair value measurements. Specifically, this standard sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs.

This standard defines levels within the hierarchy of inputs as follows:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that USPC has the ability to access.

Level 2 — Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

USPC recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period.

The following is a description of the valuation method used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position.

All of USPC's investments are in mutual funds or securities of public companies that are measured using quoted prices in active markets. The following table presents the fair values of those investments at December 31, 2012:

	Fair Value	Level 1	Level 2	Level 3
Cash Alternative	$ 294,467	$	$ 294,467	$
Equity Securities:				
Large Cap Growth	350,244	350,244		
Large Cap Value	333,190	333,190		
Large Cap Blend	20,522	20,522		
Mid Cap Growth	310,450	310,450		
Mid Cap Value	125,692	125,692		
Small Cap Growth	159,802	159,802		
Small Cap Value	37,577	37,577		
International Equity	301,923	301,923		
Emerging Market Equity	37,577	37,577		
REIT Equity	131,377	131,377		
Mutual Funds:				
Short Term Taxable Fixed Income	24,067	24,067		
Intermediate Taxable Fixed Income	103,655	103,655		
Long Term Taxable Fixed Income	342,419	342,419		
Intermediate Tax Exempt Fixed Income	26,909	26,909		
International Fixed Income	52,491	52,491		
Emerging Market Debt	72,388	72,388		
High Yield Fixed Income	52,491	52,491		
Commodities	32,594	32,594		
Other	32,597	32,597		
Total	$ 2,842,432	$ 2,547,965	$ 294,467	$ -0-

The following table presents the fair values of those investments at December 31, 2011:

	Fair Value	Level 1	Level 2	Level 3
Cash Alternative	$ 197,882	$	$ 197,882	$
Equity Securities:				
Large Cap Growth	295,787	295,787		
Large Cap Value	341,162	341,162		
Mid Cap Growth	224,889	224,889		
Mid Cap Value	131,303	131,303		
Small Cap Growth	159,662	159,662		
Small Cap Value	86,183	86,183		
International Equity	380,865	380,865		
Emerging Market Equity	49,345	49,345		
REIT Equity	145,483	145,483		
Mutual Funds:				
Intermediate Taxable Fixed Income	103,228	103,228		
Long Term Taxable Fixed Income	302,026	302,026		
Intermediate Tax Exempt Fixed Income	20,986	20,986		
International Fixed Income	52,181	52,181		
Emerging Market Debt	63,525	63,525		
High Yield Fixed Income	185,469	185,469		
Commodities	74,868	74,868		
Other	21,080	21,080		
Total	$ 2,835,924	$ 2,638,041	$ 197,882	$ -0-

7. LONG-TERM DEBT

USPC entered into a construction loan with a bank on October 9, 2006. The loan draw is limited to $500,000 at a rate of 6.55% and is secured by the headquarters building. Monthly principal and interest payments of $4,005 commenced on November 9, 2007 and were based on the total amount drawn on the loan. Final principal and interest payments were due on October 9, 2014.

During February 2012, USPC refinanced the loan for $368,624 at a rate of 4.5% and the loan is secured by the headquarters building. Monthly principal and interest payments of $3,836 commenced on March 15, 2012 and are based on the total amount of the loan. Final principal and interest payments are due on February 15, 2022.

The principal balance as of December 31, 2012 and 2011 was $343,536 and $370,539, respectively. The carrying amount of assets pledged as collateral was $1,695,491 and $1,642,247 at December 31, 2012 and 2011, respectively. Assets pledged as collateral are classified as property and equipment in the accompanying statement of financial position.

Future minimum principal payments as determined by subsequent payments and the refinanced loan agreement are as follows:

2013	$	30,985
2014		32,429
2015		33,940
2016		35,521
2017		37,176
Thereafter		173,485
Total	$	343,536

8. BOARD DESIGNATED NET ASSETS

Board designated net assets consist of the following at December 31:

	2012		2011	
Board Designated Reserve	$	1,165,550	$	1,011,555
Building Fund		164,629		163,533
Relief Fund		25,857		22,920
Insurance and Equipment Funds		301,823		266,410
	$	1,657,859	$	1,464,418

Board Designated Reserve (formally Endowment Fund) – represents a board designated reserve for the purpose of generating income for stabilizing dues. Specific revenue sources are allocated to the fund by the Board in addition to investment income.

Building Fund – represents a reserve designated for the purpose of maintaining the national office headquarters building. Income for the fund is generated by donations restricted to this purpose and investment income.

Relief Fund – represents a board designated reserve whose use is determined by the Board of Governors.

Insurance Fund – represents a board designated reserve to provide for one year's liability insurance premium for club members. Income for the fund is generated from investment income.

Equipment Fund – represents a board designated reserve for capital purchases and leasehold improvements. This fund is financed by transfers from the operating fund.

9. BOARD DESIGNATED RESERVE

USPC has four endowment funds that represents a board designated reserve for the purpose of generating income for stabilizing dues. Specific revenue sources are allocated to the fund by the Board in addition to investment income. As required by accounting principles generally accepted in the United States of America, 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.

USPC has adopted a spending policy of contributing to operating expenses a maximum of 5% of the endowment fund's principal as calculated over the last rolling 12 quarters. The percentage may be amended by the Board of Governors. This is consistent with USPC's objective to maximize investment income of the endowment fund as well as to provide additional real growth through investment return.

To achieve that objective, USPC has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. The endowment fund assets are invested in a balanced mix of fixed income mutual funds, institutional money managers, or through direct ownership of individual securities that is intended to provide cash at a minimum of:

(1) One month reserve readily available
(2) Three months reserve available within seven days notice
(3) Remainder available within three months and invested in freely negotiable, low-risk, high credit quality marketable securities

Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the endowment fund to unacceptable levels of risk.

Composition of and changes in the designated net assets for the year ended December 31, 2012 were as follows:

Beginning of year	$ 1,464,418
Contributions	34,209
Income earned on investments	58,518
Net realized gains on investments	20,818
Unrealized gains on investments	116,711
Amounts appropriated for expenditure	(36,815)
End of year	$ 1,657,859

Composition of and changes in the designated net assets for the year ended December 31, 2011 were as follows:

Beginning of year	$ 1,469,575
Contributions	7,025
Income earned on investments	47,946
Net realized gains on investments	76,325
Unrealized losses on investments	(114,181)
Amounts appropriated for expenditure	(22,272)
End of year	$ 1,464,418

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	2012	2011
Ritchie Fund	$ 12,393	$ 11,170
Pitts Memorial	42,837	60,070
Strassburger Memorial	4,166	11,900
Renfro Fund	24,458	22,555
Taylor/Hundt Fund	13,942	12,239
Inter-Pacific Fund	115,187	122,918
Pemstein Fund	8,982	8,023
Lenhert Fund	17,785	16,805
Brennan Memorial	77,628	72,504
Brookfield Fund	27,602	21,115
Helbert Fund	12,648	12,190
Omaha Grant	29,488	-0-
USA Equestrian Trust Grant	9,855	-0-
	$ 396,971	$ 371,489

Ritchie Fund – represents donor restricted net assets to provide funds for an annual competition administered by the Foxhunting Committee for all D and C rated USPC members and other educational purposes as determined by the USPC Foxhunting Committee.

Pitts Memorial – represents donor restricted net assets whose use is restricted to International Games Exchange as determined by the USPC Games Committee.

Strassburger Memorial – represents donor restricted net assets for activities of the International Tetrathlon Exchange and educational purposes as determined by USPC Tetrathlon Committee.

Renfro Fund – represents donor restricted net assets for academic scholarships to USPC members. Income for the fund is generated by donations restricted to this purpose and investment income.

Taylor/Hundt Fund – represents donor restricted net assets for USPC eventing awards and contributions to the Equestrian Land Conservation Resource. Income for the fund is generated by donations restricted to this purpose and investment income.

Inter-Pacific Fund – represents donor restricted net assets for the support of USPC teams participating in the Inter-Pacific Exchange and other international exchange programs. Income for the fund is generated by donations restricted to this purpose and investment income.

Pemstein Fund – represents donor restricted net assets for the purpose of supporting awards in horse management in Eventing each year at the national championships. Income for the fund is generated by donations restricted to this purpose and investment income.

Lenhert Fund – represents donor restricted net assets for the purpose of aiding Pony Clubs and Regions funding a visiting instructor for summer instruction and/or club or regional camps, and to assist clubs who might not otherwise be able to afford to participate in the visiting instructor's program.

Brennan Memorial – represents donor restricted net assets for the purpose of aiding USPC in funding for instructor certification programs for Pony Club instructors and upper-level members. Income for the fund is generated by donations restricted to this purpose and investment income.

Brookfield Fund – represents donor restricted net assets for the purpose of promoting land conservation. The Brookfield Conservation Award is presented to a Pony Club whose members have helped promote land conservation through their dedication and hard work. Income for the fund is generated by donations restricted to this purpose and investment income.

Helbert Fund – represents donor restricted net assets for the purpose of encouraging Pony Club members in their academic pursuits in the liberal arts area. $1,000 annually will be used to award a one-year scholarship for higher education to a member meeting the qualifications. Income for the fund is generated by donations restricted to this purpose and investment income.

Omaha Grant – represents the grant received from the Omaha Equestrian Foundation Grant to build a traveling display to use at The International of Omaha 2013 "Take a Ride – Have Fun! Exhibit" event.

USA Equestrian Trust Grant – represents a grant used to fund the shipment and travel expenses for staff concerning the mobile educational display that the Club built using funds from the Omaha Equestrian Foundation Grant.

11. RENTAL INCOME

USPC leases office space and facilities to several local horse organizations. The leases are for a period of two to four years. The cost and carrying value of the building leased by USPC is $950,735 and $979,544 for the years ended December 31, 2012 and 2011, respectively. Rental income received in 2012 and 2011 totaled $131,350 and $134,565, respectively.

Future minimum rental income to be received for the years ending December 31:

2013	$	68,711
2014		68,711
2015		58,636
2016		32,568
Total	$	228,626

12. ROYALTY AGREEMENTS

During 2011, USPC entered into an agreement for the publication of the United States Pony Club Manual of Horsemanship: Advanced Horsemanship, Intermediate Horsemanship, and Basics for Beginners. The publisher was responsible for all costs incurred to publish the books. USPC receives royalties between 5% - 15% on all copies sold, less returns. Total royalties income earned during 2012 and 2011 was $3,276 and $4,407, respectively, and is included with Bookstore revenue.

13. COMMITMENTS AND CONTINGENCIES

USPC agreed to pay the survivor of a former employee or his spouse certain amounts following the death of either individual. To fund this agreement, USPC purchased insurance on the life of the former employee with the death benefit to fund the employee's annual payments of at least $4,500. The spouse was deceased as of December 31, 2007 so the maximum payout is currently set at $4,500 per year. The present value of the estimated future benefits payable under the terms of the agreement, based on normal life expectancy and eight percent earnings rate, is approximately $15,000 and is presented in accounts payable and other accrued liabilities in the statement of financial position.

14. CONCENTRATIONS

Financial instruments that potentially subject USPC to concentrations of credit risk consist principally of cash deposits, investments, and pledges receivable.

USPC has a concentration of credit risk in that it periodically maintains cash deposits in a single financial institution in excess of amounts insured by the FDIC. USPC has not experienced any losses on such accounts and does not believe that it is subject to significant credit risk related to the accounts.

15. RETIREMENT PLAN

USPC sponsors a defined contribution retirement plan (Plan) for all full-time employees who meet certain age and length of service requirements. The Plan permits eligible employees to make voluntary Section 403(b) salary deferral contributions. USPC's retirement plan expense was $12,048 and $11,614 in 2012 and 2011, respectively.

16. RELATED PARTIES

Contribution income for 2012 and 2011 included $15,060 and $26,765, respectively from members of the Board of Governors and Advisory Committee.

USPC incurred printing expenses from a board member's company in the amount of $22,214 during 2011.

17. USPC INSURANCE PROGRAM

The USPC maintains liability and accident/medical coverage for their activities throughout the country. Coverage is provided by Specialty Program Insurors and is underwritten by ACE American Insurance Company. The United States Pony Clubs, Inc. and/or its individual registered member clubs, regions and regional officers, member board of governors, committee members, volunteers, regional supervisors, district commissioners, national examiners, advisors, individual members, technical delegates, judges, employees, and instructors are all covered for liability while acting within their capacity as such, under the direction of the national organization or an insured region or affiliated club. A portion of member dues is utilized to pay these premiums. The office fee charged for each location used for USPC activities also goes toward payment of these premiums.

18. INCOME TAX STATUS

USPC is a not-for-profit corporation, other than a private foundation, organized under Section 501(c)(3) of the Internal Revenue Code and is thus exempt from federal and state income taxes. Accordingly, no income tax expense is reported in the accompanying financial statements. USPC has filed its Internal Revenue Service (IRS) Form 990 (Returns of Organizations Exempt from Income Tax) for periods through December 31, 2012 and is subject to routine audits by taxing jurisdictions. However, as of the date the financial statements were available to be issued, there were no audits for any tax periods in progress. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by USPC and recognize a tax liability if USPC has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by USPC, and has concluded that as of December 31, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

19. RECLASSIFICATION OF NET ASSETS

During the year ended December 31, 2012, the USPC determined that temporarily restricted net assets reported at December 31, 2011 were understated and unrestricted net assets were overstated by $10,000 related to the Ritchie Fund. Accordingly, net assets in the 2011 financial statements have been reclassified.

The above reclassification had no effect on total assets, total liabilities or total net assets of the USPC as previously reported at December 31, 2011. The effect of the reclassification on the net assets previously reported at December 31, 2011 is summarized as follows:

	Unrestricted	Temporarily Restricted	Total
Net assets, beginning of year, as previously reported	$ 3,787,286	$ 361,489	$ 4,148,775
Effect of reclassification	(10,000)	10,000	-0-
Net assets, beginning of year, as reclassified	$ 3,777,286	$ 371,489	$ 4,148,775

The effect of the reclassification on the change in net assets previously reported at December 31, 2011 is summarized as follows:

	Unrestricted	Temporarily Restricted	Total
Change in net assets, for the year ended December 31, 2011, as previously reported	$ (205,665)	$ 8,131	$ (197,534)
Effect of reclassification	(10,000)	10,000	-0-
Change in net assets for the year ended December 31, 2011, as reclassified	$ (215,665)	$ 18,131	$ (197,534)