



FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

# THE UNITED STATES PONY CLUBS, INC.

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of The United States Pony Clubs, Inc., (USPC), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements 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 USPC, as of December 31, 2016 and 2015, and its changes in net assets 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 19, 2017

# THE UNITED STATES PONY CLUBS, INC.

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash	\$ 445,074	\$ 435,152
Investments	538,436	655,854
Accounts receivable	88,392	25,481
Inventory	16,481	110,533
Prepaid expenses	123,229	107,447
Total current assets	1,211,612	1,334,467
Property and equipment, net	1,629,978	1,716,354
Other assets:		
Cash surrender value of life insurance	189,871	183,815
Investments:		
Designated	2,458,669	2,325,987
Temporarily restricted	422,552	374,995
Permanently restricted	10,000	-0-
Total other assets	3,081,092	2,884,797
Total assets	\$ 5,922,682	\$ 5,935,618
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 119,784	\$ 102,382
Tenant deposits	8,135	7,331
Current portion of long-term debt	37,402	35,759
Deferred income:		
Membership dues	580,890	623,174
Annual meeting	84,829	68,329
Other	167,994	93,692
Total current liabilities	999,034	930,667
Long-term liabilities:		
Long-term debt	171,715	208,934
Total liabilities	1,170,749	1,139,601
Net assets:		
Unrestricted:		
Undesignated	1,860,713	2,095,035
Designated	2,458,669	2,325,987
Total unrestricted	4,319,381	4,421,022
Temporarily restricted	422,552	374,995
Permanently restricted	10,000	-0-
Total net assets	4,751,933	4,796,017
Total liabilities and net assets	\$ 5,922,682	\$ 5,935,618

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenues:</b>				
Support:				
Contributions	\$ 150,015	\$ 64,780	\$ 10,000	\$ 224,795
Grants	25,405			25,405
In-kind contributions	12,093			12,093
Total support	187,513	64,780	10,000	262,293
Revenue:				
Advertising	27,716			27,716
Annual meeting	90,920			90,920
Bookstore	170,758			170,758
Championships and events	294,150			294,150
Instruction	66,141			66,141
Insurance	200,595			200,595
International exchange	64,724			64,724
Investment income	39,102	12,078		51,180
Membership dues and fees	1,019,188			1,019,188
National Youth Congress	13,227			13,227
Rent	93,809			93,809
Other	10,954			10,954
Unrealized gains (losses)	4,886	13,177		18,063
Realized gains (losses)	181,122	(9,931)		171,191
Net assets released from restrictions, satisfaction of program restrictions	32,547	(32,547)		-0-
Total revenue	2,309,839	(17,223)	-0-	2,292,616
Total support and revenues	2,497,352	47,557	10,000	2,554,909
<b>Operating expenses:</b>				
Program expenses:				
Activities	472,123			472,123
Annual meeting	93,134			93,134
Bookstore	141,816			141,816
Communications	240,816			240,816
Instruction	288,077			288,077
Insurance	205,390			205,390
Member services	271,078			271,078
Total program expenses	1,712,434	-0-	-0-	1,712,434
Management and general	754,358			754,358
Fundraising	132,201			132,201
Total operating expenses	2,598,993	-0-	-0-	2,598,993
<b>Change in net assets</b>	(101,641)	47,557	10,000	(44,084)
<b>Net assets, beginning of year</b>	4,421,022	374,995	-0-	4,796,017
<b>Net assets, end of year</b>	\$ 4,319,381	\$ 422,552	\$ 10,000	\$ 4,751,933

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, 2015

	Unrestricted	Temporarily Restricted	Total
<b>Support and revenues:</b>			
Support:			
Contributions	\$ 447,125	\$ 57,150	\$ 504,275
Grants	10,000		10,000
In-kind contributions	110,424		110,424
Total support	567,549	57,150	624,699
Revenue:			
Advertising	30,568		30,568
Annual meeting	114,425		114,425
Bookstore	157,879		157,879
Championships and events	253,663		253,663
Instruction	74,500		74,500
Insurance	207,260		207,260
International exchange	64,426		64,426
Investment income	58,534	19,517	78,051
Membership dues and fees	1,020,256		1,020,256
National Youth Congress	50,258		50,258
Rent	91,946		91,946
Other	31,671		31,671
Unrealized gains (losses)	(320,274)	(36,548)	(356,822)
Realized gains (losses)	171,191	(10,085)	161,106
Net assets released from restrictions, satisfaction of program restrictions	41,190	(41,190)	-0-
Total revenue	2,047,493	(68,306)	1,979,187
Total support and revenues	2,615,042	(11,156)	2,603,886
<b>Operating expenses:</b>			
Program expenses:			
Activities	425,803		425,803
Annual meeting	95,890		95,890
Bookstore	126,273		126,273
Communications	226,143		226,143
Instruction	310,347		310,347
Insurance	199,434		199,434
Member services	275,132		275,132
Total program expenses	1,659,022	-0-	1,659,022
Management and general	708,542		708,542
Fundraising	133,446		133,446
Total operating expenses	2,501,010	-0-	2,501,010
<b>Change in net assets</b>	114,032	(11,156)	102,876
<b>Net assets, beginning of year</b>	4,306,990	386,151	4,693,141
<b>Net assets, end of year</b>	\$ 4,421,022	\$ 374,995	\$ 4,796,017

See accompanying notes to the financial statements.

# THE UNITED STATES PONY CLUBS, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (44,084)	\$ 102,876
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	137,597	126,863
Unrealized (gains) losses on investments	(18,063)	356,822
Realized gains on investments	(171,191)	(161,106)
Donated inventory	-0-	(93,696)
Donated securities included in contributions	(1,049)	(26,807)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(62,911)	(13,290)
Inventory	94,052	4,475
Prepaid expenses	(15,782)	(47,216)
Cash surrender value of life insurance	(6,056)	(5,947)
Disposal of asset		
Increase (decrease) in liabilities:		
Accounts payable and other accrued liabilities	17,402	9,787
Tenant deposits	804	(1,535)
Deferred income	48,518	(105,316)
Net cash flows from operating activities	(20,763)	145,910
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	1,226,856	704,449
Purchases of investments	(1,109,374)	(992,773)
Purchases of equipment and construction in progress	(51,221)	(83,362)
Net cash flows from investing activities	66,261	(371,686)
<b>Cash flows from financing activities:</b>		
Principal payments on long-term debt	(35,576)	(34,022)
Net cash flows from financing activities	(35,576)	(34,022)
Net change in cash	9,922	(259,798)
Cash, beginning of year	435,152	694,950
Cash, end of year	\$ 445,074	\$ 435,152
 <b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest expense	\$ 10,455	\$ 12,010
Donated securities	\$ 1,049	\$ 26,807
Donated inventory	\$ -0-	\$ 93,696

See accompanying notes to the financial statements.

# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of The United States Pony Clubs, 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 Accounting

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.

#### Use 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.

#### Financial Statement Presentation

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 designation, and used for various program expenses and general operating functions.
- *Unrestricted-designated net assets* – net assets subject to USPC's board designations.

# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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- *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.
- *Permanently restricted net assets* – net assets subject to donor-imposed stipulations that they must be maintained permanently by USPC.

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 net assets released from restrictions between the applicable classes of net assets.

### Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Although the methods of allocation are appropriate, other methods could produce different results.

### Cash and Cash Equivalents

The USPC classifies as cash and cash equivalents all checking, savings, money market accounts, money market funds, and all highly liquid investments maturing within 90 days of purchase.

### Investments

Investments are stated at fair market value. Income derived from realized and unrealized investment gains and losses is included in the change in net assets and are reported as increases or decreases in unrestricted net assets unless otherwise restricted by explicit donor stipulation or by law.

### Accounts Receivable

Accounts receivable are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis; thus trade receivables do not bear interest.

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, 2016 and 2015; therefore, no allowance for doubtful accounts is necessary.

# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### Inventory

Inventory is stated at the lower of 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 \$137,597 and \$126,863 for 2016 and 2015, 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.

### Cash Value of Life Insurance

USPC is the owner of permanent life insurance policies that cover the lives of certain former key employees. These permanent life insurance policies have a cash surrender value. That cash value is carried on the balance sheet at the surrender value reported to USPC by the insurance carrier.

### Deferred Income

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

### Revenue Recognition

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. Championships and event fees are recorded as revenue in the period in which the event occurs.

### 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.

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# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 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 2016 and 2015, 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.

### Recently Issued Accounting Standards

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date for all entities by one year. These new standards, which the USPC is not required to adopt until its year ending December 31, 2019, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the Company is not required to adopt until its year ending December 31, 2020, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their balance sheet the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's balance sheet.

On August 18, 2016, the FASB issued ASU No. 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which USPC is not required to adopt until its year ending December 31, 2018, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two phase project to amend not-for-profit financial reporting requirements.

USPC is presently evaluating the effects that these ASUs will have on its future financial statements, including disclosures.

# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 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 19, 2017, the date which the financial statements were available to be issued.

### 2. CONCENTRATIONS OF CREDIT RISK

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

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 Federal Deposit Insurance Corporation (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.

### 3. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Furniture and fixtures	\$ 184,370	\$ 231,018
Computer equipment and software	698,398	587,336
Building and improvements	2,034,272	2,034,272
Construction in progress	-0-	18,800
Total property and equipment	<u>2,917,040</u>	<u>2,871,426</u>
Less accumulated depreciation	<u>(1,287,062)</u>	<u>(1,155,072)</u>
Total property and equipment, net	<u>\$ 1,629,978</u>	<u>\$ 1,716,354</u>

At December 31, 2015, USPC had a software customization project in progress. The project was completed in February 2016 and the total costs was reclassified from construction in progress to computer equipment and software and depreciated accordingly.

# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 4. INVESTMENTS

Investments consist of the following as of December 31:

	2016	2015
Cash and cash equivalents	\$ 471,071	\$ 295,722
Fixed income mutual funds	673,548	781,317
Equity securities	2,285,038	2,279,797
Total investments	<u>\$ 3,429,657</u>	<u>\$ 3,356,836</u>

Investments are reported as follows within the accompanying statements of financial position:

	2016	2015
Current assets:		
Investments	\$ 538,436	\$ 655,854
Other assets:		
Designated investments	2,458,669	2,325,987
Temporarily restricted investments	422,552	374,995
Permanently restricted investments	10,000	-0-
Total investments	<u>\$ 3,429,657</u>	<u>\$ 3,356,836</u>

Investment income earned by these investments for the year ended December 31, 2016 is reported net of related management fees of \$44,890 and net of investment foreign taxes of \$354.

Investment income earned by these investments for the year ended December 31, 2015 is reported net of related management fees of \$44,644 and net of investment foreign taxes of \$883.

### 5. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described 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.

# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

- 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 any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

- *Equity securities*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by USPC are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by USPC are deemed to be actively traded.

USPC's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels 1 and 2 during 2016 and 2015.

All of USPC's investments are in fixed income 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, 2016:

	Level 1	Level 2	Level 3	Total
Large Cap Equity	\$ 1,126,799	\$ -	\$ -	\$ 1,126,799
Mid Cap Equity	492,490			492,490
Small Cap Equity	163,616			163,616
International Equity	179,611			179,611
REITs and MLPs	322,522			322,522
Short Term Fixed Income	178,216			178,216
Long Term Fixed Income	183,343			183,343
Intermediate Fixed Income	238,698			238,698
Other	73,291			73,291
Total investments of fair value	<u>\$ 2,958,586</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>2,958,586</u>
Cash and cash equivalents				471,071
Total				<u>\$ 3,429,657</u>

# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

The following table presents the fair values of those investments at December 31, 2015:

	Level 1	Level 2	Level 3	Total
Large Cap Equity	\$ 1,218,594	\$	\$	\$ 1,218,594
Mid Cap Equity	357,474			357,474
Small Cap Equity	199,309			199,309
International Equity	329,598			329,598
REITs and MLPs	174,822			174,822
Short Term Fixed Income	70,122			70,122
Intermediate Fixed Income	463,280			463,280
Multi Class	114,670			114,670
Other	133,245			133,245
Total investments of fair value	<u>\$ 3,061,114</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	3,061,114
Cash and cash equivalents				295,722
Total				<u>\$ 3,356,836</u>

### 6. LONG-TERM DEBT

The USPC has a loan for \$368,624 at a fixed rate of 4.5% and is secured by the headquarters building. Monthly principal and interest payments of \$3,836 commenced on March 15, 2012 and the loan matures on February 15, 2022. The principal balance as of December 31, 2016 and 2015 was \$209,117 and \$244,693, respectively. The carrying amount of assets pledged as collateral was \$496,803 and \$518,964 at December 31, 2016 and 2015, respectively. Interest expense was \$10,455 and \$12,010 in 2016 and 2015, respectively. Assets pledged as collateral are classified as property and equipment in the accompanying statements of financial position.

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

2017	37,402
2018	39,120
2019	40,917
2020	42,797
2021	45,126
Thereafter	3,755
Total	<u>\$ 209,117</u>

# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 7. BOARD DESIGNATED NET ASSETS

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

	2016	2015
Board designated reserve	\$ 2,039,907	\$ 1,909,406
Building fund	126,988	109,427
Relief fund	29,962	28,361
Insurance and equipment funds	261,812	278,793
Total board designated net assets	<u>\$ 2,458,669</u>	<u>\$ 2,325,987</u>

*Board Designated Reserve* – represents a board designated reserve for the purpose of providing program excellence. 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 improving and 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.

### 8. ENDOWMENTS

USPC has 13 endowment funds that represent a board designated reserve for the purpose of providing program excellence. Specific revenue sources are allocated to the fund by the Board in addition to investment income. In 2016, the USPC also received a permanently restricted gift in the amount of \$10,000. 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.

# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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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 and permanently restricted net assets for the year ended December 31, 2016 were as follows:

	Board Designated	Permanently Restricted
Beginning of year	\$ 2,325,987	\$ -0-
Contributions	276,101	10,000
Income earned on investments	56,132	-0-
Net realized gains on investments	87,056	-0-
Unrealized gains on investments	85,248	-0-
Amounts appropriated for expenditure	(371,855)	-0-
End of year	<u>\$ 2,458,669</u>	<u>\$ 10,000</u>

Composition of and changes in the designated net assets for the year ended December 31, 2015 were as follows:

Beginning of year	\$ 2,162,101
Contributions	291,033
Income earned on investments	68,902
Net realized gains on investments	145,803
Unrealized gains on investments	(231,439)
Amounts appropriated for expenditure	(110,413)
End of year	<u>\$ 2,325,987</u>

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# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 9. TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Ritchie Fund	\$ 1,483	\$ 10,904
Pitts Memorial	29,544	34,964
Strassburger Memorial	8,961	8,324
Renfro Fund	26,686	26,504
Taylor/Hundt Fund	14,109	14,133
Inter-Pacific Fund	108,762	102,580
Lenhart Fund	17,184	17,711
Brennan Memorial	81,663	79,368
Brookfield Fund	28,600	27,976
Helbert Fund	11,387	12,211
Margo Leithead Award	23,202	14,998
Mattingly Fund	60,926	25,322
Penrose Leadership Fund	10,045	-0-
	<u>\$ 422,552</u>	<u>\$ 374,995</u>

*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.

# THE UNITED STATES PONY CLUBS, INC.

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*Lenhart 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.

*Margo Leithead Award* – represents donor restricted net assets for the purpose of awarding the winning Horse Management teams at Championship events and USPC Festival each year.

*Mattingly Fund* – represents donor restricted net assets for USPC eventing awards and contributions to provide volunteer training, development and support programs for local, regional and national leaders including but not limited to District Commissioners, Center Administrators, Regional Supervisor, and Board of Governors. Income for the fund is generated by donations restricted to this purpose and investment income.

*Penrose Leadership Fund* – represents donor restricted net assets for the purpose of supporting the National Testing Training programs for National Examiners and Apprentice National Examiners. Income for the fund is generated by donations restricted to this purpose and investment income.

### 10. PERMANENTLY RESTRICTED NET ASSETS

In 2016, USPC received an initial investment of \$10,000, in which the interest earned and subsequent gifts are used to support the National Testing Training programs for National Examiners and Apprentice National Examiners. As of December 31, 2016, the fund had \$20,045, with the remaining \$10,045 of accumulated interest and subsequent gifts classified as temporarily restricted (Note 9).

# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 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 of the building leased by USPC is \$1,131,355 with accumulated depreciation of \$289,821 and \$259,247 for the years ended December 31, 2016 and 2015, respectively. The carrying amount of the building as of December 31, 2016 and 2015 was \$841,534 and \$872,108, respectively. Rental income received in 2016 and 2015 totaled \$93,809 and \$91,946, respectively.

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

2017	\$	18,429
2018		9,215
Total	\$	<u>27,644</u>

### 12. 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 \$11,047 and \$8,411 in 2016 and 2015, respectively.

### 13. RELATED PARTIES

Contribution income for 2016 and 2015 included \$32,674 and \$21,177, respectively from members of the Board of Governors, Advisory Committee, and staff.

### 14. USPC INSURANCE PROGRAM

The USPC maintains liability and accident/medical coverage for their activities throughout the country. Coverage is provided by Specialty Program Insurers and is underwritten by ACE American Insurance Company. The USPC 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.

# THE UNITED STATES PONY CLUBS, INC.

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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### 15. 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 \$11,000 and is presented in accounts payable and other accrued liabilities in the statement of financial position.

### 16. INCOME TAX STATUS

The USPC is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code.

As such, the USPC is generally exempt from income taxes. However, the USPC is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only. The USPC is subject to routine audits by taxing jurisdictions. As of the date the financials were available to be issued, there were no audits for any tax periods in progress.

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, 2016 and 2015, 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.