Pony Club
Where it all begins

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

THE UNITED STATES PONY CLUBS, INC.

TABLE OF CONTENTS
DECEMBER 31, 2017 AND 2016

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.
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, 2017 and 2016, 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, 2017 and 2016, 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 18, 2018

THE UNITED STATES PONY CLUBS, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Cash	$ 636,018	$ 445,074
Investments	712,636	538,436
Accounts receivable	35,880	88,392
Inventory	13,776	16,481
Prepaid expenses	112,050	123,229
Total current assets	1,510,360	1,211,612
Property and equipment, net	1,484,100	1,629,978
Other noncurrent assets:		
Cash surrender value of life insurance	61,295	189,871
Investments	3,379,185	2,891,221
Total other noncurrent assets	3,440,480	3,081,092
Total assets	$ 6,434,940	$ 5,922,682
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 106,886	$ 119,784
Tenant deposits	9,529	8,135
Current portion of long-term debt	39,120	37,402
Deferred income:		
Membership dues	615,764	580,890
Annual meeting	99,494	84,829
Other	134,096	167,994
Total current liabilities	1,004,889	999,034
Long-term liabilities:		
Long-term debt	132,733	171,715
Total liabilities	1,137,622	1,170,749
Net assets:		
Unrestricted:		
Undesignated	1,918,133	1,860,712
Designated	2,850,940	2,458,669
Total unrestricted	4,769,073	4,319,381
Temporarily restricted	508,245	422,552
Permanently restricted	20,000	10,000
Total net assets	5,297,318	4,751,933
Total liabilities and net assets	$ 6,434,940	$ 5,922,682

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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Support:				
Contributions	$ 139,689	$ 72,746	$ 10,000	$ 222,435
Grants	58,925			58,925
In-kind contributions	8,869			8,869
Total support	207,483	72,746	10,000	290,229
Revenue:				
Advertising	24,540			24,540
Annual meeting	114,903			114,903
Bookstore	172,361			172,361
Championships and events	616,770			616,770
Instruction	83,815			83,815
Insurance	198,272			198,272
International exchange	95,463			95,463
Investment income	57,399	19,790		77,189
Membership dues and fees	978,652			978,652
National Youth Congress	17,872			17,872
Rent	96,866			96,866
Other	69,317			69,317
Unrealized gains (losses)	305,578	23,229		328,807
Realized gains (losses)	89,283	2,537		91,820
Net assets released from restrictions, satisfaction of program restrictions	32,609	(32,609)		-0-
Total revenue	2,953,700	12,947	-0-	2,966,647
Total support and revenues	3,161,183	85,693	10,000	3,256,876
Operating expenses:				
Program expenses:				
Activities	674,936			674,936
Annual meeting	95,718			95,718
Bookstore	149,389			149,389
Communications	200,172			200,172
Instruction	294,038			294,038
Insurance	202,600			202,600
Member services	274,847			274,847
Total program expenses	1,891,700	-0-	-0-	1,891,700
Management and general	668,086			668,086
Fundraising	151,705			151,705
Total operating expenses	2,711,491	-0-	-0-	2,711,491
Change in net assets	449,692	85,693	10,000	545,385
Net assets, beginning of year	4,319,381	422,552	10,000	4,751,933
Net assets, end of year	$ 4,769,073	$ 508,245	$ 20,000	$ 5,297,318

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
Support and revenues:				
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)	10,000	2,292,616
Total support and revenues	2,497,352	47,557	10,000	2,554,909
Operating expenses:				
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
Change in net assets	(101,641)	47,557	10,000	(44,084)
Net assets, beginning of year	4,421,022	374,995	-0-	4,796,017
Net assets, end of year	$ 4,319,381	$ 422,552	$ 10,000	$ 4,751,933

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 545,385	$ (44,084)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	145,878	137,597
Unrealized (gains) losses on investments	(328,807)	(18,063)
Realized (gains) losses on investments	(91,820)	(171,191)
Donated securities included in contributions	(3,336)	(1,049)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	52,512	(62,911)
Inventory	2,705	94,052
Prepaid expenses	11,179	(15,782)
Cash surrender value of life insurance	128,576	(6,056)
Increase (decrease) in liabilities:		
Accounts payable and other accrued liabilities	(12,898)	17,402
Tenant deposits	1,394	804
Deferred income	15,641	48,518
Net cash flows from operating activities	466,409	(20,763)
Cash flows from investing activities:		
Proceeds from sales of investments	810,555	1,226,856
Purchases of investments	(1,048,756)	(1,109,374)
Purchases of equipment and construction in progress	-0-	(51,221)
Cash contributions restricted for endowment investment	(10,000)	(10,000)
Net cash flows from investing activities	(248,201)	56,261
Cash flows from financing activities:		
Principal payments on long-term debt	(37,264)	(35,576)
Cash contributions restricted for endowment investment	10,000	10,000
Net cash flows from financing activities	(27,264)	(25,576)
Net change in cash	190,944	9,922
Cash, beginning of year	445,074	435,152
Cash, end of year	$ 636,018	$ 445,074
Supplemental disclosures of cash flow information:		
Cash paid for interest expense	$ 8,767	$ 10,455
Donated securities	$ 3,336	$ 1,049

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., (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.

- *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, 2017 and 2016; therefore, no allowance for doubtful accounts is necessary.

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 $145,878 and $137,597 for 2017 and 2016, respectively.

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.

All other revenues are recognized when earned.

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 2017 and 2016, 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.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year 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.

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 18, 2018, 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:

	2017	2016
Furniture and fixtures	$ 184,370	$ 184,369
Computer equipment and software	698,398	698,398
Building and improvements	2,034,272	2,034,272
Total property and equipment	2,917,040	2,917,039
Less accumulated depreciation	(1,432,940)	(1,287,061)
Total property and equipment, net	$ 1,484,100	$ 1,629,978

4. INVESTMENTS

Investments consist of the following as of December 31:

	2017	2016
Cash and cash equivalents	$ 406,847	$ 471,071
Fixed income mutual funds	946,734	673,548
Equity securities	2,738,240	2,285,038
Total investments	$ 4,091,821	$ 3,429,657

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

	2017	2016
Current assets:		
Investments	$ 712,636	$ 538,436
Other assets:		
Designated investments	2,850,940	2,458,669
Temporarily restricted investments	508,245	422,552
Permanently restricted investments	20,000	10,000
Total investments	$ 4,091,821	$ 3,429,657

Investment income earned by these investments for the year ended December 31, 2017 is reported net of related management fees of $47,995 and net of investment foreign taxes of $1,289.

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.

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.

- 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, 2017 and 2016.

- *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 2017 and 2016.

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, 2017:

	Level 1	Level 2	Level 3	Total
Large Cap Equity	$ 1,194,919	$	$	$ 1,194,919
Mid Cap Equity	641,595			641,595
Small Cap Equity	296,875			296,875
International Equity	263,279			263,279
REITs and MLPs	226,587			226,587
Short Term Fixed Income	186,298			186,298
Long Term Fixed Income	250,155			250,155
Intermediate Fixed Income	453,682			453,682
Other	171,584			171,584
Total investments at fair value	$ 3,684,974	$ -0-	$ -0-	3,684,974
Cash and cash equivalents				406,847
Total				$ 4,091,821

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 at fair value	$ 2,958,586	$ -0-	$ -0-	2,958,586
Cash and cash equivalents				471,071
Total				$ 3,429,657

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, 2017 and 2016 was $171,853 and $209,117, respectively. The carrying amount of assets pledged as collateral was $495,001 and $496,803 at December 31, 2017 and 2016, respectively. Interest expense was $8,767 and $10,455 in 2017 and 2016, 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:

2018	$ 39,120
2019	40,917
2020	42,797
2021	45,126
2022	3,893
Total	$ 171,853

7. BOARD DESIGNATED NET ASSETS

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

	2017	2016
Board designated reserve	$ 2,404,892	$ 2,039,907
Building fund	131,677	126,988
Relief fund	31,177	29,962
Insurance and equipment funds	283,194	261,812
Total board designated net assets	$ 2,850,940	$ 2,458,669

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 11 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 2017 and 2016, the USPC also received permanently restricted gifts in the amount of $10,000 each year. 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 and permanently restricted net assets for the year ended December 31, 2017 were as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted
Beginning of year	$ 2,458,669	$ 10,045	$ 10,000
Contributions	222,475	3,544	10,000
Income earned on investments	38,074	996	-0-
Net realized gains on investments	78,389	184	-0-
Unrealized gains on investments	270,922	1,445	-0-
Amounts appropriated for expenditure	(217,589)	-0-	-0-
End of year	$ 2,850,940	$ 16,214	$ 20,000

Composition of and changes in the designated net assets for the year ended December 31, 2016 were as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted
Beginning of year	$ 2,325,987	$ -0-	$ -0-
Contributions	276,101	10,606	10,000
Income earned on investments	56,132	477	-0-
Net realized gains on investments	87,056	-0-	-0-
Unrealized gains (losses) on investments	85,248	(1,038)	-0-
Amounts appropriated for expenditure	(371,855)	-0-	-0-
End of year	$ 2,458,669	$ 10,045	$ 10,000

9. TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Ritchie Fund	$ 1,483	$ 1,483
Pitts Memorial	27,185	29,544
Strassburger Memorial	24,484	8,961
Renfro Fund	27,962	26,686
Taylor/Hundt Fund	15,330	14,109
Inter-Pacific Fund	103,505	108,762
Lenhert Fund	17,281	17,184
Brennan Memorial	92,655	81,663
Brookfield Fund	28,819	28,600
Helbert Fund	12,278	11,387
Margo Leithead Award	19,451	23,202
Mattingly Fund	121,598	60,926
Penrose Leadership Fund	15,074	10,045
Middle Tennessee	1,140	-0-
	$ 508,245	$ 422,552

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.

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.

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.

Middle Tennessee Fund – represents donor restricted net assets for the purpose of supporting Quiz-related programs during Championship. 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, 2017, the fund had $24,925, with the remaining $14,925 of accumulated interest and subsequent gifts classified as temporarily restricted (Note 9).

In 2017, USPC received an initial investment of $10,000, in which the interest earned and subsequent gifts are used to support the Quiz competition at Championships or other Quiz-related expenes. As of December 31, 2017, the fund had $11,140 with the remaining $1,140 of accumulated interest and subsequent gifts classified as temporarily restricted (Note 9).

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 $319,744 and $289,821 for the years ended December 31, 2017 and 2016, respectively. The carrying amount of the building as of December 31, 2017 and 2016 was $811,611 and $841,534, respectively. Rental income received in 2017 and 2016 totaled $96,866 and $93,809, respectively. All leases currently expire by December 31, 2018. Future minimum rental income to be received for the year ending December 31, 2018, totals $68,628.

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 $9,734 and $11,047 in 2017 and 2016, respectively.

13. RELATED PARTIES

Contribution income for 2017 and 2016 included $37,721 and $32,674, 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.

15. 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, 2017 and 2016, 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.