FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

THE UNITED STATES PONY CLUBS, INC.

TABLE OF CONTENTS
DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 16 to the financial statements, effective January 1, 2018, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Blue & Co., LLC

Lexington, Kentucky
May 17, 2019

THE UNITED STATES PONY CLUBS, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017 (As restated)
ASSETS		
Current assets:		
Cash	$ 613,461	$ 636,018
Investments	712,292	712,636
Accounts receivable	36,300	35,880
Inventory	12,961	13,776
Prepaid expenses	151,062	112,050
Total current assets	1,526,076	1,510,360
Property and equipment, net	1,347,914	1,484,100
Other noncurrent assets:		
Cash surrender value of life insurance	64,291	61,295
Investments	3,117,648	3,379,185
Total other noncurrent assets	3,181,939	3,440,480
Total assets	$ 6,055,929	$ 6,434,940
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 151,799	$ 106,886
Tenant deposits	7,799	9,529
Current portion of long-term debt	40,917	39,120
Deferred income:		
Membership dues	573,315	615,764
Annual meeting	87,677	99,494
Other	124,755	134,096
Total current liabilities	986,262	1,004,889
Long-term liabilities:		
Long-term debt	91,906	132,733
Total liabilities	1,078,168	1,137,622
Net assets:		
Without donor restrictions		
Undesignated	1,860,113	1,918,133
Designated by the Board	2,622,129	2,819,763
Total without donor restrictions	4,482,242	4,737,896
With donor restrictions		
Purpose restricted	475,519	539,422
Endowment fund	20,000	20,000
Total with donor restrictions	495,519	559,422
Total net assets	4,977,761	5,297,318
Total liabilities and net assets	$ 6,055,929	$ 6,434,940

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, 2018

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restricted	Endowment Fund	
Support and revenues:				
Support:				
Contributions	$ 209,303	$ 37,026	$ -0-	$ 246,329
In-kind contributions	8,673			8,673
Total support	217,976	37,026	-0-	255,002
Revenue:				
Advertising	31,193			31,193
Annual meeting	118,227			118,227
Bookstore	146,025			146,025
Championships and events	258,901			258,901
Instruction	81,395			81,395
Insurance	190,908			190,908
International exchange	118,498			118,498
Investment income, net	(198,004)	(42,237)		(240,241)
Membership dues and fees	1,072,721			1,072,721
National Youth Congress	31,360			31,360
Rent	83,349			83,349
Other	6,611			6,611
Net assets released from restrictions, satisfaction of program restrictions	58,692	(58,692)		-0-
Total revenue	1,999,876	(100,929)	-0-	1,898,947
Total support and revenues	2,217,852	(63,903)	-0-	2,153,949
Operating expenses:				
Program expenses	1,626,440			1,626,440
Management and general	703,309			703,309
Fundraising	143,757			143,757
Total operating expenses	2,473,506	-0-	-0-	2,473,506
Change in net assets	(255,654)	(63,903)	-0-	(319,557)
Net assets, beginning of year	4,737,896	539,422	20,000	5,297,318
Net assets, end of year	$ 4,482,242	$ 475,519	$ 20,000	$ 4,977,761

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 (AS RESTATED)

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restricted	Endowment Fund	
Support and revenues:				
Support:				
Contributions	$ 136,814	$ 75,621	$ 10,000	$ 222,435
Grants	58,925			58,925
In-kind contributions	8,869			8,869
Total support	204,608	75,621	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, net	452,527	45,289		497,816
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
Net assets released from restrictions, satisfaction of program restrictions	34,002	(34,002)		-0-
Total revenue	2,955,360	11,287	-0-	2,966,647
Total support and revenues	3,159,968	86,908	10,000	3,256,876
Operating expenses:				
Program expenses	1,868,953			1,868,953
Management and general	694,188			694,188
Fundraising	148,350			148,350
Total operating expenses	2,711,491	-0-	-0-	2,711,491
Change in net assets	448,477	86,908	10,000	545,385
Net assets, beginning of year as previously stated	4,319,381	422,552	10,000	4,751,933
Prior period adjustment (Note 16)	(29,962)	29,962	-0-	-0-
Net assets, beginning of year as restated	4,289,419	452,514	10,000	4,751,933
Net assets, end of year	$ 4,737,896	$ 539,422	$ 20,000	$ 5,297,318

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

		Supporting services		
	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 377,760	$ 395,660	$ 55,731	$ 829,151
Payroll taxes and employee benefits	105,232	110,219	15,525	230,976
	482,992	505,879	71,256	1,060,127
Legal Fees	3,326	3,483	491	7,300
Accounting Fees	14,423	15,106	2,128	31,657
Office Expenses	40,563	42,485	5,984	89,032
Occupancy	27,487	18,795	2,647	48,929
Travel	1,365	1,430	201	2,996
Conferences	14,732	15,430	2,173	32,335
Bookstore	107,954	-0-	-0-	107,954
Interest	3,189	3,340	470	6,999
Depreciation	63,360	66,362	9,347	139,069
Insurance	2,451	2,567	362	5,380
Other Expenses	31,990	15	2,264	34,269
Restricted Disbursements	26,557	27,815	3,918	58,290
Activities	316,163	-0-	-0-	316,163
Festival	-0-	-0-	-0-	-0-
Instruction	131,103	-0-	-0-	131,103
Communications	77,506	-0-	-0-	77,506
Annual meeting	56,644	-0-	-0-	56,644
Member services	51,881	-0-	-0-	51,881
Development	-0-	602	42,516	43,118
Insurance	172,754	-0-	-0-	172,754
Total operating expenses	$ 1,626,440	$ 703,309	$ 143,757	$ 2,473,506

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

		Supporting services		
	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 382,941	$ 390,482	$ 56,484	$ 829,907
Payroll taxes and employee benefits	112,313	114,526	16,566	243,405
	495,254	505,008	73,050	1,073,312
Legal Fees	6,090	6,210	898	13,198
Accounting Fees	12,689	12,939	1,872	27,500
Office Expenses	42,345	43,179	6,246	91,770
Occupancy	27,119	15,825	2,289	45,233
Travel	2,729	2,783	403	5,915
Conferences	14,021	14,297	2,068	30,386
Bookstore	132,790	-0-	-0-	132,790
Interest	4,045	4,125	597	8,767
Depreciation	67,312	68,638	9,929	145,879
Insurance	2,784	2,838	411	6,033
Other Expenses	39,982	784	2,936	43,702
Restricted Disbursements	15,689	15,998	2,314	34,001
Activities	524,691	-0-	-0-	524,691
Festival	12,925	-0-	-0-	12,925
Instruction	140,529	-0-	-0-	140,529
Communications	49,340	-0-	-0-	49,340
Annual meeting	53,961	-0-	-0-	53,961
Member services	49,804	-0-	-0-	49,804
Development	-0-	1,564	45,337	46,901
Insurance	174,854	-0-	-0-	174,854
Total operating expenses	$ 1,868,953	$ 694,188	$ 148,350	$ 2,711,491

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (319,557)	$ 545,385
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	139,069	145,878
Unrealized (gains) losses on investments	475,528	(328,807)
Realized (gains) losses on investments	(119,445)	(91,820)
Donated securities included in contributions	(1,156)	(3,336)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(420)	52,512
Inventory	815	2,705
Prepaid expenses	(39,012)	11,179
Cash surrender value of life insurance	(2,996)	128,576
Increase (decrease) in liabilities:		
Accounts payable and other accrued liabilities	44,913	(12,898)
Tenant deposits	(1,730)	1,394
Deferred income	(63,607)	15,641
Net cash flows from operating activities	112,402	466,409
Cash flows from investing activities:		
Proceeds from sales of investments	753,873	810,555
Purchases of investments	(846,918)	(1,048,756)
Purchases of equipment and construction in progress	(2,884)	-0-
Cash contributions restricted for endowment investment	-0-	(10,000)
Net cash flows from investing activities	(95,929)	(248,201)
Cash flows from financing activities:		
Principal payments on long-term debt	(39,030)	(37,264)
Cash contributions restricted for endowment investment	-0-	10,000
Net cash flows from financing activities	(39,030)	(27,264)
Net change in cash	(22,557)	190,944
Cash, beginning of year	636,018	445,074
Cash, end of year	$ 613,461	$ 636,018

	2018	2017
Supplemental disclosures of cash flow information:		
Cash paid for interest expense	$ 7,000	$ 8,767
Donated securities	$ 1,156	$ 3,336

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:

- *Net assets without donor restrictions* – net assets that are not subject to donor-imposed stipulations or USPC's designation, and used for various program expenses and general operating functions.

- *Net assets with donor restrictions* – net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor 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 functional expenses. Direct costs are allocated by department. Certain expenses require allocation on a reasonable basis that is consistently applied. Salaries and benefits are allocated based on personnel time. Occupancy costs and depreciation are allocated based on square footage used. Although the methods used were appropriate, alternative methods may have provided 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 net assets without donor restrictions 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, 2018 and 2017; 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 $139,069 and $145,879 for 2018 and 2017, respectively.

Cash Value of Life Insurance

USPC is the owner of a permanent life insurance policy that covers the life of a former key employee. This permanent life insurance policy has 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 net assets with donor restrictions or net assets without donor restrictions 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 2018 and 2017, 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 2017 financial statements have been reclassified to conform to the 2018 presentation. Such reclassifications had no effect on previously reported assets, liabilities, net assets or changes in net assets.

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.

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

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued.

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, 2019, 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:

	2018	2017
Furniture and fixtures	$ 184,370	$ 184,369
Computer equipment and software	701,280	698,398
Building and improvements	2,034,272	2,034,272
Total property and equipment	2,919,922	2,917,039
Less accumulated depreciation	(1,572,008)	(1,432,939)
Total property and equipment, net	$ 1,347,914	$ 1,484,100

4. INVESTMENTS

Investments consist of the following as of December 31:

	2018	2017
Cash and cash equivalents	$ 349,848	$ 406,847
Fixed income mutual funds	1,063,320	946,734
Equity securities	2,416,772	2,738,240
Total investments	$ 3,829,940	$ 4,091,821

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

	2018	2017
Current assets:		
Investments	$ 712,292	$ 712,636
Other assets:		
Designated investments	2,622,129	2,819,763
Purpose restricted investments	475,519	539,422
Endowment investments	20,000	20,000
Total investments	$ 3,829,940	$ 4,091,821

Investment income earned by these investments for the years ended December 31, 2018 and 2017, is reported net on the accompanying statement of activities and changes in net assets as follows:

	2018	2017
Interest and dividend income	$ 173,791	$ 126,486
Realized and unrealized gains (losses)	(356,083)	420,627
Investment management fees	(57,949)	(49,297)
Net investment income	$ (240,241)	$ 497,816

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, 2018 and 2017.

- *Equity securities*: Valued at the closing price reported on the active market on which the individual securities are traded.

- *REIT, mutual funds and MLPs*: 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 REITs, mutual funds and MLPs 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 2018 and 2017.

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, 2018:

	Level 1	Level 2	Level 3	Total
Large Cap Equity	$ 1,172,062	$ -0-	$ -0-	$ 1,172,062
Mid Cap Equity	650,162			650,162
Small Cap Equity	176,811			176,811
International Equity	288,188			288,188
REITs and MLPs	198,950			198,950
Long Term Fixed Income	200,373			200,373
Intermediate Fixed Income	311,015			311,015
High Yield Fixed Income	203,224			203,224
Other	279,307			279,307
Total investments at fair value	$ 3,480,092	$ -0-	$ -0-	3,480,092
Cash and cash equivalents				349,848
Total				$ 3,829,940

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	$ -0-	$ -0-	$ 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

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, 2018 and 2017 was $132,823 and $171,853, respectively. The carrying amount of assets pledged as collateral was $467,980 and $495,001 at December 31, 2018 and 2017, respectively. Interest expense was $7,000 and $8,767 in 2018 and 2017, 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:

2019	40,917
2020	42,797
2021	45,126
2022	3,983
Total	$ 132,823

7. BOARD DESIGNATED NET ASSETS

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

	2018	2017
Board designated reserve	$ 2,236,741	$ 2,404,892
Building fund	116,881	131,677
Insurance and equipment funds	268,507	283,194
Total board designated net assets	$ 2,622,129	$ 2,819,763

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.

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 10 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 addition, USPC has two donor restricted endowment funds. 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.

Interpretation of Relevant Law

USPC is subject to the Uniform Prudent Management of Institutional Fund Act ("UPMIFA"). In approving endowment, spending and related policies, as part of the prudent and diligent discharge of its duties, the USPC's Board of Governors has interpreted the law to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary.

As a result of this interpretation, for accounting and financial statement purposes, the USPC classifies as donor restricted net assets the historic dollar value of assets held as donor restricted endowment, including any subsequent gifts and any accumulations to donor restricted endowments made in accordance with the direction of the applicable gift instruments.

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor restrictions. Donor-restricted endowments are classified as net assets with donor restriction and board designated endowments are classified as net assets without donor restrictions consistent with the standard of prudence prescribed by UPMIFA.

The USPC has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measure required under the law. Additionally, in accordance with UPMIFA, the USPC considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

(1) The duration and preservation of the fund,
(2) The purpose of the USPC and the donor-restricted endowment fund,
(3) General economic conditions,
(4) The possible effect of inflation and deflation,
(5) The expected total return from income and the appreciation of investments,
(6) Other resources of the USPC,
(7) The investment policies of the USPC.

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the USPC to retain as a fund of perpetual duration. During 2018 and 2017, there were no deficiencies of this nature.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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.

Spending Policy and How Investment Objectives Relate to Spending Policy

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.

Composition of and changes in the designated net assets and permanently restricted net assets for the year ended December 31, 2018 were as follows:

		With Donor Restrictions	
	Without Donor Restrictions	Accumulated Investment Gains	Original Principal
Beginning of year	$ 2,819,763	$ 16,214	$ 20,000
Contributions	155,045	2,570	-0-
Income earned on investments	55,442	1,991	-0-
Net realized gains (losses) on investments	120,743	(54)	-0-
Unrealized losses on investments	(331,034)	(3,998)	-0-
Amounts appropriated for expenditure	(197,830)	-0-	-0-
End of year	$ 2,622,129	$ 16,723	$ 20,000

Composition of and changes in the designated net assets for the year ended December 31, 2017 were as follows:

	Without Donor Restrictions	With Donor Restrictions: Accumulated Investment Gains	With Donor Restrictions: Original Principal
Beginning of year, as previoulsy stated	$ 2,458,669	$ 10,045	$ 10,000
Prior period adjustment (Note 16)	(29,962)	-0-	-0-
Beginning of year, restated	2,428,707	10,045	10,000
Contributions	219,600	3,544	10,000
Income earned on investments	36,589	996	-0-
Net realized gains on investments	79,070	184	-0-
Unrealized gains (losses) on investments	271,993	1,445	-0-
Amounts appropriated for expenditure	(216,196)	-0-	-0-
End of year	$ 2,819,763	$ 16,214	$ 20,000

9. NET ASSETS WITH DONOR RESTRICTIONS

In 2016, USPC received an initial investment of $10,000 for the purpose of USPC's National Testing Training programs for National Examiners and Apprentice National Examiners. As of December 31, 2018, the fund had $24,585, and is included in USPC's net assets with donor restrictions. The initial investment is to remain in the endowment, while the interest earned and subsequent gifts can be used for expenditures that meets its purpose.

In 2017, USPC received an initial investment of $10,000 for the purpose of Quiz competition at Championships or other Quiz-related expense. As of December 31, 2018, the fund had $12,138, and is included in USPC's net assets with donor restrictions. The initial investment is to remain in the endowment, while the interest earned and subsequent gifts can be used for expenditures that meets its purpose.

The following net assets are subject to expenditure for specific purposes, and therefore included in net assets with donor restrictions:

	2018	2017
Ritchie Fund	$ -0-	$ 1,483
Pitts Memorial	26,734	27,185
Strassburger Memorial	9,775	24,484
Renfro Fund	25,325	27,962
Taylor/Hundt Fund	13,806	15,330
Inter-Pacific Fund	91,015	103,505
Lenhert Fund	14,468	17,281
Brennan Memorial	82,904	92,655
Brookfield Fund	27,700	28,819
Helbert Fund	9,460	12,278
Margo Leithead Award	18,281	19,451
Mattingly Fund	112,151	121,598
Penrose Leadership Fund	14,585	15,074
Middle Tennessee	2,138	1,140
Disaster Relief Fund	27,177	31,177
	$ 475,519	$ 539,422

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 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.

Disaster Relief Fund – represents donor restricted net assets for the purpose of aiding Pony Club families and horses in the recovery efforts following a natural disaster or accident.

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. 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 $349,667 and $319,744 for the years ended December 31, 2018 and 2017, respectively. The carrying amount of the building as of December 31, 2018 and 2017 was $781,688 and $811,611, respectively. Rental income received in 2018 and 2017 totaled $83,349 and $96,866, respectively. Future minimum rental income are:

2019	$	77,269
2020		75,943
2021		29,657
2022		6,696
Total	$	189,565

11. 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 $12,338 and $9,734 in 2018 and 2017, respectively.

12. RELATED PARTIES

Contribution income for 2018 and 2017 included $40,582 and $37,721, respectively from members of the Board of Governors, Advisory Committee, and staff.

13. 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.

14. 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, 2018 and 2017, 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.

15. AVAILABILITY OF FINANCIAL ASSETS

The United States Pony Clubs, Inc. has $1,397,053 of financial assets available within one year of the Statement of Financial Position date to meet cash needs for general expenditure consisting of cash of $613,461, accounts receivable of $36,300, short-term investments of $712,292, and the anticipated endowment fund appropriation for the following year of approximately $35,000.

The following reflects the United States Pony Clubs, Inc.'s financial assets as of the Statement of Financial Position date, including the amount designated by the board of directors to be used within one year of the Statement of Financial Position.

Current assets, excluding non-financial assets	$	1,362,053
Add: endowment fund appropriation for following year		35,000
Financial assets available to meet cash needs for general expenditures within on year	$	1,397,053

16. CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT

Effective January 1, 2018, USPC adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as information it presents in the financial statements and notes about its liquidity, financial performance and cash flows. USPC has adjusted the presentation of its 2018 financial statements herein and retrospectively restated the prior year financial statements. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, the accompanying statements of functional expenses were added to the financial statements and new disclosures were added regarding liquidity and the availability of resources (Note 15) for ASU 2016-14.

Through the implementation process, USPC also determined that the Disaster Relief Fund, which was previously recorded as Unrestricted – Board Designated net assets should be reclassified into donor restricted net assets. The prior period adjustment had no effect on total net assets as previously reported for the year ended December 31, 2017. The effects of such adjustment increased the classification of net assets with donor restrictions by $31,177 and decreased net assets without donor restrictions by $31,177.

The impact of the adoption of ASU No. 2016-14, including the prior period adjustment, on USPC's net assets is as follows:

Statement of Financial Position

	As previously stated, December 31, 2017	Prior Period Adjustment	ASU 2016-14 Adjustment	As restated, December 31, 2017
Unrestricted net assets	$ 4,769,073	$ (31,177)	$ (4,737,896)	$ -0-
Temporarily restricted net assets	508,245	31,177	(539,422)	-0-
Permanently restricted net assets	20,000		(20,000)	-0-
Without donor restrictions			4,737,896	4,737,896
With donor restrictions			559,422	559,422
Total net assets	$ 5,297,318	$ -0-	$ -0-	$ 5,297,318

Statement of Activities

	As previously stated, for the year-ended December 31, 2017	Prior Period Adjustment	ASU 2016-14 Adjustment	As restated, for the year-ended December 31, 2017
Change in unrestricted net assets	$ 449,692	$ (1,215)	$ (448,477)	$ -0-
Change in temporarily restricted net assets	85,693	1,215	(86,908)	-0-
Change in permanently restricted net assets	10,000		(10,000)	-0-
Change in net assets without donor restrictions			448,477	448,477
Change in net assets with donor restrictions			96,908	96,908
Total changes in net assets	$ 545,385	$ -0-	$ -0-	$ 545,385