FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

THE UNITED STATES PONY CLUBS, INC.

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CPAS / ADVISORS

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Changes in Accounting Principles

As discussed in Note 17 to the financial statements, effective January 1, 2019, USPC adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customer (Topic 606),* ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606*) and ASU No. 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made.* Our opinion is not modified with respect to these matters.

Blue & Co., LLC

Lexington, Kentucky
June 5, 2020

THE UNITED STATES PONY CLUBS, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Current assets:		
Cash	$ 724,428	$ 613,461
Investments	862,190	712,292
Accounts receivable	18,658	36,300
Inventory	14,050	12,961
Prepaid expenses	121,644	151,062
Total current assets	1,740,970	1,526,076
Property and equipment, net	1,281,968	1,347,914
Other noncurrent assets:		
Cash surrender value of life insurance	67,279	64,291
Investments	3,760,666	3,117,648
Total other noncurrent assets	3,827,945	3,181,939
Total assets	$ 6,850,883	$ 6,055,929
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 113,395	$ 151,799
Tenant deposits	7,799	7,799
Current portion of long-term debt	42,797	40,917
Deferred income	848,931	785,747
Total current liabilities	1,012,922	986,262
Long-term liabilities:		
Long-term debt	49,208	91,906
Total liabilities	1,062,130	1,078,168
Net assets:		
Without donor restrictions		
Undesignated	2,028,087	1,860,113
Designated by the Board	3,167,873	2,622,129
Total without donor restrictions	5,195,960	4,482,242
With donor restrictions		
Purpose restricted	572,793	475,519
Endowment fund	20,000	20,000
Total with donor restrictions	592,793	495,519
Total net assets	5,788,753	4,977,761
Total liabilities and net assets	$ 6,850,883	$ 6,055,929

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, 2019

	Without Donor Restrictions	With Donor Restrictions: Purpose Restricted	With Donor Restrictions: Endowment Fund	Total
Support and revenues:				
Support:				
Contributions	$ 259,948	$ 33,159	$ -0-	$ 293,107
In-kind contributions	5,228			5,228
Total support	265,176	33,159	-0-	298,335
Contract revenue:				
Annual meeting	121,121			121,121
Championships and events	211,398			211,398
Instruction	61,930			61,930
International exchange	89,330			89,330
National Youth Congress	16,463			16,463
Membership dues and fees	1,058,265			1,058,265
Insurance	186,613			186,613
Advertising	22,091			22,091
Bookstore	163,237			163,237
Rent	75,648			75,648
Net assets released from restrictions, satisfaction of program restrictions	50,847	(50,847)		-0-
Total contract revenue	2,056,943	(50,847)	-0-	2,006,096
Other revenue:				
Investment income, net	754,239	114,962		869,201
Other	63,126			63,126
Total other revenue	817,365	114,962	-0-	932,327
Total support and revenues	3,139,484	97,274	-0-	3,236,758
Operating expenses:				
Program expenses	1,526,825			1,526,825
Management and general	757,841			757,841
Fundraising	141,100			141,100
Total operating expenses	2,425,766	-0-	-0-	2,425,766
Change in net assets	713,718	97,274	-0-	810,992
Net assets, beginning of year	4,482,242	475,519	20,000	4,977,761
Net assets, end of year	$ 5,195,960	$ 572,793	$ 20,000	$ 5,788,753

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

		With Donor Restrictions		
	Without Donor Restrictions	Purpose Restricted	Endowment Fund	Total
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
Contract revenue:				
Annual meeting	118,227			118,227
Championships and events	258,901			258,901
Instruction	81,395			81,395
International exchange	118,498			118,498
National Youth Congress	31,360			31,360
Membership dues and fees	1,072,721			1,072,721
Insurance	190,908			190,908
Advertising	31,193			31,193
Bookstore	146,025			146,025
Rent	83,349			83,349
Net assets released from restrictions, satisfaction of program restrictions	58,692	(58,692)		-0-
Total contract revenue	2,191,269	(58,692)	-0-	2,132,577
Other revenue:				
Investment income, net	(198,004)	(42,237)		(240,241)
Other	6,611			6,611
Total other revenue	(191,393)	(42,237)	-0-	(233,630)
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 FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

		Supporting services		
	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 364,562	$ 420,327	$ 53,615	$ 838,504
Payroll taxes and employee benefits	100,462	115,829	14,774	231,065
	465,024	536,156	68,389	1,069,569
Professional fees	20,943	24,146	3,080	48,169
Office expenses	28,084	32,380	4,130	64,594
Occupancy	17,324	19,974	2,548	39,846
Travel	1,877	2,165	276	4,318
Conferences	15,347	17,694	2,257	35,298
Bookstore	125,276	-0-	-0-	125,276
Interest	2,267	2,614	333	5,214
Depreciation	54,291	62,596	7,984	124,871
Insurance	2,470	2,847	363	5,680
Other expenses	38,165	-0-	2,397	40,562
Restricted disbursements	48,840	56,311	7,183	112,334
Activities	264,795	-0-	-0-	264,795
Instruction	77,413	-0-	-0-	77,413
Communications	66,880	-0-	-0-	66,880
Annual meeting	58,883	-0-	-0-	58,883
Member services	61,270	-0-	-0-	61,270
Development	-0-	958	42,160	43,118
Insurance	177,676	-0-	-0-	177,676
Total operating expenses	$ 1,526,825	$ 757,841	$ 141,100	$ 2,425,766

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
Professional fees	17,749	18,589	2,619	38,957
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
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.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 810,992	$ (319,557)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	124,871	139,069
Unrealized (gains) losses on investments	(624,561)	475,528
Realized (gains) losses on investments	(150,348)	(119,445)
Donated securities included in contributions	(1,042)	(1,156)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	17,642	(420)
Inventory	(1,089)	815
Prepaid expenses	29,418	(39,012)
Cash surrender value of life insurance	(2,988)	(2,996)
Increase (decrease) in liabilities:		
Accounts payable and other accrued liabilities	(38,404)	44,913
Tenant deposits	-0-	(1,730)
Deferred income	63,184	(63,607)
Net cash flows from operating activities	227,675	112,402
Cash flows from investing activities:		
Proceeds from sales of investments	1,047,682	753,873
Purchases of investments	(1,064,646)	(846,918)
Purchases of equipment and construction in progress	(58,926)	(2,884)
Net cash flows from investing activities	(75,890)	(95,929)
Cash flows from financing activities:		
Principal payments on long-term debt	(40,818)	(39,030)
Net change in cash	110,967	(22,557)
Cash, beginning of year	613,461	636,018
Cash, end of year	$ 724,428	$ 613,461

Supplemental disclosures of cash flow information:		
Cash paid for interest expense	$ 5,214	$ 6,999
Donated securities	$ 1,042	$ 1,156

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

The USPC classifies as cash all checking, savings, and money market accounts, 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, 2019 and 2018; therefore, no allowance for doubtful accounts is necessary. The balance of receivables on January 1, 2018 was $35,880.

Inventory

Inventory is stated at the lower of cost or net realizable value, 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 $124,871 and $139,069 for 2019 and 2018, 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 statement of financial position 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

As discussed in Note 17, on January 1, 2019, USPC adopted "Revenue from Contracts with Customers" using the retrospective method applied to all contracts. USPC derives its revenue primarily from registrations of events, bookstore revenue, membership related revenue and contributions. Registrations are recognized in the period in which the event is held. Each registration is generally accounted for as a single unit of account (a single performance obligation), and are not grouped together. USPC typically opens up registrations a few months prior to an event and any amount received by USPC prior to an event is recognized as a deferred revenue (contract liability) on the statement of financial position.

A portion of USPC's revenue is derived from their bookstore. The USPC recognizes merchandise sales at the point of sale. Returns are immaterial. Net sales are reflected in the accompanying statement of activities.

Rental income is recognized as revenue during the period in which the tenants occupy USPC's building. Rent is due on the 1st of each calendar month and recognized as deferred rent (contract liability) and recognized as income at the end of each month. As of December 31, 2019 and 2018, there was no deferred rent.

All of USPC's membership period runs from January 1st through December 31st. Membership dues are paid for educational development, insurance, advocacy, and collaboration opportunities with other members. Payments received in advanced are recognized as deferred income (contract liability) until the membership period has been satisfied.

Contributions are received by USPC through fund-raising campaigns or relationships with donors. Revenue is recognized and recorded as with or without donor restrictions support based on the existence and nature of any donor restrictions.

All other revenues are recognized when earned.

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 2019 and 2018, 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 2018 financial statements have been reclassified to conform to the 2019 presentation. Such reclassifications had no effect on previously reported assets, liabilities, net assets or changes in net assets.

Recently Issued Accounting Standards

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This new standard, which USPC is not required to adopt until its year ending December 31, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position 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 statement of financial position.

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

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts our results is dependent on the breadth and duration of the pandemic and could be affected by other factors we are not currently able to predict. These impacts may include, but are not limited to, additional costs for responding to COVID-19, potential shortages of personnel, potential shortages of supplies, potential delays, loss of, or reduction to, revenue, and investment portfolio declines. Management believes the USPC is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at this time. USPC's Festival is a week-long event held at the Kentucky Horse Park in Lexington, Kentucky every three years. This event was originally scheduled to occur in the year 2020, however as a result of the pandemic the event has been postponed until July 19, 2021 and thus pushing back USPC's three year schedule.

Subsequent to the statement of financial position date, USPC received a low interest loan in the amount of $186,700 under the Paycheck Protection Program (PPP) administered by the Small Business Administration. The PPP loan is unsecured, bears interest at 1% and funds advanced under the program are subject to forgiveness, if certain criteria is met with the remaining balance repayable within two years of disbursement. The PPP loan may be forgivable to the extent that employers incur and spend the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period (the 8-week period beginning on loan origination). In addition, employers must maintain specified employment and wage levels during the pandemic, and submit adequate documentation of such expenditures to qualify for loan forgiveness.

USPC has evaluated all other events or transactions occurring subsequent to the statement of financial position date for recognition and disclosure in the accompanying financial statements through June 5, 2020, 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. CONTRACT LIABILITY (DEFERRED INCOME)

Contract liabilities are reflected as deferred income in the accompanying statements of financial position. The following table provides information about significant changes in contract liabilities for the years ended December 31, 2019 and 2018:

	2019	2018
Deferred revenue, beginning of year	$ 785,747	$ 849,354
Revenue recognized during the year	(1,344,092)	(1,418,090)
Increase due to cash received during the year	1,407,276	1,354,483
Deferred revenue, end of year	$ 848,931	$ 785,747

Deferred income consists of the following at December 31, 2019 and 2018:

	2019	2018
Prepaid memberships	$ 639,985	$ 573,315
Prepayment on annual meeting	130,491	87,677
Other prepayments and advanced registrations	78,455	124,755
	$ 848,931	$ 785,747

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at December 31:

	2019	2018
Furniture and fixtures	$ 184,370	$ 184,370
Computer equipment and software	749,975	701,280
Building and improvements	2,044,502	2,034,272
Total property and equipment	2,978,847	2,919,922
Less accumulated depreciation	(1,696,879)	(1,572,008)
Total property and equipment, net	$ 1,281,968	$ 1,347,914

5. INVESTMENTS

Investments consist of the following as of December 31:

	2019	2018
Cash and cash equivalents	$ 272,468	$ 349,848
Fixed income mutual funds	174,862	1,063,320
Real estate investment trusts (REITs)		
and master limited partnerships (MLPs)	-0-	198,950
Equity securities	4,175,526	2,217,822
Total investments	$ 4,622,856	$ 3,829,940

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

	2019	2018
Current assets:		
Investments	$ 862,190	$ 712,292
Other assets:		
Designated investments	3,167,873	2,622,129
Purpose restricted investments	572,793	475,519
Endowment investments	20,000	20,000
Total investments	$ 4,622,856	$ 3,829,940

Investment income earned by these investments for the years ended December 31, 2019 and 2018, is reported net on the accompanying statement of activities and changes in net assets as follows:

	2019	2018
Interest and dividend income	$ 149,495	$ 173,791
Realized and unrealized gains (losses)	774,909	(356,083)
Investment management fees	(55,203)	(57,949)
Net investment income	$ 869,201	$ (240,241)

6. 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, 2019 and 2018.

- *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 2019 and 2018.

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, 2019:

	Level 1	Level 2	Level 3	Total
Large Cap Growth	$ 799,260	$ -0-	$ -0-	$ 799,260
Mid Cap Growth	511,635			511,635
Mid Cap Equity	335,452			335,452
Multi-Sector Bond	322,597			322,597
Large Cap Value	315,804			315,804
Corporate Investment Grade	249,946			249,946
Small Cap Growth	230,199			230,199
Giant Cap Equity	213,442			213,442
Large Cap - Equity	184,705			184,705
Intermediate Fixed Income	174,862			174,862
Other	1,012,486			1,012,486
Total investments at fair value	$ 4,350,388	$ -0-	$ -0-	4,350,388
Cash and cash equivalents				272,468
Total				$ 4,622,856

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

7. 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, 2019 and 2018 was $92,005 and $132,823, respectively. The carrying amount of assets pledged as collateral was $451,142 and $467,980 at December 31, 2019 and 2018, respectively. Interest expense was $5,214 and $6,999 in 2019 and 2018, 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:

2020	42,797
2021	44,763
2022	4,445
Total	$ 92,005

8. BOARD DESIGNATED NET ASSETS

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

	2019	2018
Board designated reserve	$ 2,766,524	$ 2,236,741
Building fund	119,740	116,881
Insurance and equipment funds	281,609	268,507
Total board designated net assets	$ 3,167,873	$ 2,622,129

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.

9. ENDOWMENTS

As of December 31, 2019, USPC had 6 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 2019 and 2018, 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, 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions
Beginning of year	$ 2,622,129	$ 36,723
Contributions	474,500	10,524
Income earned on investments	47,939	1,427
Net realized gains (losses) on investments	136,592	-0-
Unrealized gains (losses) on investments	425,796	5,435
Amounts appropriated for expenditure	(539,083)	-0-
End of year	$ 3,167,873	$ 54,109

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

	Without Donor Restrictions	With Donor Restrictions
Beginning of year	$ 2,819,763	$ 36,214
Contributions	155,045	2,570
Income earned on investments	55,442	1,991
Net realized gains (losses) on investments	120,743	(54)
Unrealized gains (losses) on investments	(331,034)	(3,998)
Amounts appropriated for expenditure	(197,830)	-0-
End of year	$ 2,622,129	$ 36,723

10. NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Pitts Memorial	$ 24,006	$ 26,734
Strassburger Memorial	15,684	9,775
Renfro Fund	29,888	25,325
Taylor/Hundt Fund	17,026	13,806
Inter-Pacific Fund	105,191	91,015
Lenhert Fund	16,437	14,468
Brennan Memorial	98,890	82,904
Brookfield Fund	33,291	27,700
Helbert Fund	11,999	9,460
Margo Leithead Award	22,048	18,281
Mattingly Fund	127,725	112,151
Penrose Leadership Fund	30,510	24,585
Middle Tennessee	23,599	12,138
Disaster Relief Fund	36,499	27,177
	$ 592,793	$ 495,519

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. 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. The initial $10,000 investment is to remain in the endowment, while the interest earned and subsequent gifts can be used for expenditures that meets its purpose.

Middle Tennessee Fund – represents donor restricted net assets for the purpose of supporting Quiz-related programs during Championship. In 2017, USPC received an initial investment of $10,000 for the purpose of Quiz competition at Championships or other Quiz-related expense. The initial $10,000 investment is to remain in the endowment, while the interest earned and subsequent gifts can be used for expenditures that meets its purpose.

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 $379,591 and $349,667 for the years ended December 31, 2019 and 2018, respectively. The carrying amount of the building as of December 31, 2019 and 2018 was $751,764 and $781,688, respectively. Rental income received in 2019 and 2018 totaled $75,648 and $83,349, respectively. Future minimum rental income are:

2020	$	49,159
2021		17,240
2022		2,873
Total	$	69,272

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 $13,113 and $12,338 in 2019 and 2018, respectively.

13. RELATED PARTIES

Contribution income for 2019 and 2018 included $41,837 and $40,582, 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, 2019 and 2018, 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.

16. AVAILABILITY OF FINANCIAL ASSETS

As part of the United States Pony Clubs, Inc.'s liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligation come due. The following reflects the USPC 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.

	2019	2018
Cash	$ 724,428	$ 613,461
Short-term investments	862,190	712,292
Accounts receivable	18,658	36,300
Add: endowment fund appropriation for following year	35,000	35,000
Financial assets available to meet cash needs for general expenditures within on year	$ 1,640,276	$ 1,397,053

17. CHANGES IN ACCOUNTING PRINCIPLES

During 2019, USPC adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and *ASU 2015-14, 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 customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." These new standards deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto. The adoption of ASU 2014-09 and ASU 2015-14 did not have a material effect on the accompanying financial statements.

During 2019, USPC adopted ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This new standard deals with the recording of contributions with respect to exchange and non-exchange transactions. The Organization has determined it has no transactions involving right of return or right of release and it has no conditional pledges or contributions. The adoption of ASU 2018-08 did not have a material effect on the accompanying financial statements.