



FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

THE UNITED STATES PONY CLUBS, INC.

TABLE OF CONTENTS DECEMBER 31, 2021 AND 2020

	Page
Report of Independent Auditors	1
Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses.....	6
Statements of Cash Flows	8
Notes to the Financial Statements	9



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

Opinion

We have audited the accompanying financial statements of The United States Pony Clubs, Inc. ("USPC"), a nonprofit organization, which comprise the statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USPC as of December 31, 2021 and 2020, and changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of USPC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the USPC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 USPC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the USPC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blue & Co., LLC

Lexington, Kentucky
May 13, 2022

THE UNITED STATES PONY CLUBS, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Current assets:		
Cash	\$ 893,995	\$ 606,800
Investments	1,165,573	992,070
Accounts receivable	147,315	27,951
Inventory	12,510	13,199
Prepaid expenses	114,302	213,396
Total current assets	2,333,695	1,853,416
Property and equipment, net	1,121,962	1,205,213
Other noncurrent assets:		
Cash surrender value of life insurance	70,274	70,274
Investments	4,971,631	4,341,656
Total other noncurrent assets	5,041,905	4,411,930
Total assets	\$ 8,497,562	\$ 7,470,559
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 73,403	\$ 103,858
Tenant deposits	7,934	7,934
Current portion of long-term debt	4,588	44,763
Deferred income	764,365	675,970
Total current liabilities	850,290	832,525
Long-term liabilities:		
Long-term debt	-0-	4,534
Total liabilities	850,290	837,059
Net assets:		
Without donor restrictions		
Undesignated	2,679,187	2,295,486
Designated by the Board	4,128,038	3,579,668
Total without donor restrictions	6,807,225	5,875,154
With donor restrictions		
Purpose restricted	810,047	738,346
In perpetuity	30,000	20,000
Total with donor restrictions	840,047	758,346
Total net assets	7,647,272	6,633,500
Total liabilities and net assets	\$ 8,497,562	\$ 7,470,559

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, 2021

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restricted	In perpetuity	
Support and revenues:				
Support:				
Contributions	\$ 321,154	\$ 15,235	\$ 10,000	\$ 346,389
Employee Retention Credit	113,185			113,185
Paycheck Protection Program	177,327			177,327
Net assets released from restrictions, satisfaction of program restrictions	6,864	(6,864)		-0-
Total support	<u>618,530</u>	<u>8,371</u>	<u>10,000</u>	<u>636,901</u>
Contract revenue:				
Annual meeting	51,615			51,615
Event revenue	491,961			491,961
Instruction	44,550			44,550
Membership dues and fees	960,130			960,130
Insurance	184,755			184,755
Shop Pony Club merchandise sales	174,266			174,266
Total contract revenue	<u>1,907,277</u>	<u>-0-</u>	<u>-0-</u>	<u>1,907,277</u>
Other revenue:				
Investment income, net	713,262	63,330		776,592
Rent	86,077			86,077
Other	30,581			30,581
Total other revenue	<u>829,920</u>	<u>63,330</u>	<u>-0-</u>	<u>893,250</u>
Total support and revenues	<u>3,355,727</u>	<u>71,701</u>	<u>10,000</u>	<u>3,437,428</u>
Operating expenses:				
Program expenses	1,558,407			1,558,407
Management and general	611,700			611,700
Fundraising	253,549			253,549
Total operating expenses	<u>2,423,656</u>	<u>-0-</u>	<u>-0-</u>	<u>2,423,656</u>
Change in net assets	932,071	71,701	10,000	1,013,772
Net assets, beginning of year	<u>5,875,154</u>	<u>738,346</u>	<u>20,000</u>	<u>6,633,500</u>
Net assets, end of year	<u>\$ 6,807,225</u>	<u>\$ 810,047</u>	<u>\$ 30,000</u>	<u>\$ 7,647,272</u>

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, 2020

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restricted	In perpetuity	
Support and revenues:				
Support:				
Contributions	\$ 359,389	\$ 14,337	\$ -0-	\$ 373,726
Paycheck Protection Program	186,700			186,700
Net assets released from restrictions, satisfaction of program restrictions	17,025	(17,025)		-0-
Total support	563,114	(2,688)	-0-	560,426
Contract revenue:				
Annual meeting	150,750			150,750
Instruction	40,430			40,430
National Youth Congress	18,662			18,662
Membership dues and fees	969,351			969,351
Insurance	169,468			169,468
Shop Pony Club merchandise sales	124,563			124,563
Total contract revenue	1,473,224	-0-	-0-	1,473,224
Other revenue:				
Investment income, net	597,764	168,241		766,005
Rent	81,618			81,618
Other	36,762			36,762
Total other revenue	716,144	168,241	-0-	884,385
Total support and revenues	2,752,482	165,553	-0-	2,918,035
Operating expenses:				
Program expenses	1,150,527			1,150,527
Management and general	723,079			723,079
Fundraising	199,682			199,682
Total operating expenses	2,073,288	-0-	-0-	2,073,288
Change in net assets	679,194	165,553	-0-	844,747
Net assets, beginning of year	5,195,960	572,793	20,000	5,788,753
Net assets, end of year	\$ 5,875,154	\$ 738,346	\$ 20,000	\$ 6,633,500

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2021

	Supporting services			2021 Total
	Program Services	Management and General	Fundraising	
Salaries and wages	\$ 460,878	\$ 316,003	\$ 93,246	\$ 870,127
Payroll taxes and employee benefits	124,347	85,260	25,158	234,765
	585,225	401,263	118,404	1,104,892
Annual meeting	1,313			1,313
Awards and scholarships	16,700			16,700
Buildings and occupancy	28,461	25,779	6,389	60,629
Credit Card Fees	29,271		4,237	33,508
Championships and festivals	447,495			447,495
Committees	3,350			3,350
Shop Pony Club - cost of sales	122,001			122,001
Shop Pony Club - other expenses	11,098			11,098
Depreciation	41,423	37,520	9,299	88,242
General office expense	31,454	24,820	6,691	62,965
Instruction	40,512			40,512
Insurance	91,499	72,200	19,465	183,164
International exchanges	255			255
Meeting expense	2,913	2,298	620	5,831
Member services	36,997			36,997
Postage and printing	6,786	2,451	47,963	57,200
Professional services	24,397	19,252	5,190	48,839
Technology	36,790	25,727	31,936	94,453
Miscellaneous	467	390	3,355	4,212
	\$ 1,558,407	\$ 611,700	\$ 253,549	\$ 2,423,656

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2020

	Supporting services			2020 Total
	Program Services	Management and General	Fundraising	
Salaries and wages	\$ 441,181	\$ 325,408	\$ 91,000	\$ 857,589
Payroll taxes and employee benefits	126,009	92,943	25,991	244,943
	567,190	418,351	116,991	1,102,532
Annual meeting	72,834			72,834
Awards and scholarships	16,336			16,336
Buildings and occupancy	21,373	19,360	4,798	45,531
Credit Card Fees	21,627		3,157	24,784
Championships and festivals	6,507			6,507
Committees	6,168			6,168
Shop Pony Club - cost of sales	89,162			89,162
Shop Pony Club - other expenses	9,675			9,675
Depreciation	39,451	35,734	8,856	84,041
General office expense	29,710	24,298	6,387	60,395
Instruction	51,682			51,682
Insurance	84,924	69,454	18,255	172,633
International exchanges	1,352			1,352
Meeting expense	17,905	14,644	3,849	36,398
Member services	37,194			37,194
Postage and printing	5,147	6,296	24,146	35,589
Professional services	19,426	15,886	4,176	39,488
Technology	35,078	26,589	6,989	68,656
Trainings and convention	13,202			13,202
Support operations		85,000		85,000
Travel	4,584		2,078	6,662
Miscellaneous		7,467		7,467
	\$ 1,150,527	\$ 723,079	\$ 199,682	\$ 2,073,288

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 1,013,772	\$ 844,747
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	88,242	84,041
Unrealized (gains) losses on investments	(572,882)	(731,239)
Realized (gains) losses on investments	(185,562)	81,363
Donated securities included in contributions	(10,010)	(9,878)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(119,364)	(9,293)
Inventory	689	851
Prepaid expenses	99,094	(91,752)
Cash surrender value of life insurance	-0-	(2,995)
Increase (decrease) in liabilities:		
Accounts payable and other accrued liabilities	(30,455)	(9,537)
Tenant deposits	-0-	135
Deferred income	88,395	(172,961)
Net cash flows from operating activities	371,919	(16,518)
Cash flows from investing activities:		
Proceeds from sales of investments	1,590,790	736,547
Purchases of investments	(1,625,813)	(787,662)
Purchases of equipment and construction in progress	(4,992)	(7,287)
Net cash flows from investing activities	(40,015)	(58,402)
Cash flows from financing activities:		
Principal payments on long-term debt	(44,709)	(42,708)
Net change in cash	287,195	(117,628)
Cash, beginning of year	606,800	724,428
Cash, end of year	\$ 893,995	\$ 606,800
 Supplemental disclosures of cash flow information:		
Cash paid for interest expense	\$ 1,322	\$ 3,323
Donated securities	\$ 10,010	\$ 9,878

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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.
-

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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 (Contract 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, 2021 and 2020; therefore, no allowance for doubtful accounts is necessary. The balance of receivables on January 1, 2020 was \$18,658.

Inventory

Inventory is stated at the lower of cost or net realizable value, using the average cost method which approximates actual costs.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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 \$88,242 and \$84,041 for 2021 and 2020, 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 (Contract Liability)

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. The contract liability on January 1, 2020, was 848,931.

Revenue Recognition

USPC derives its revenue primarily from registrations for events, Shop Pony Club merchandise sales, 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.

Shop Pony Club merchandise sales are recognized 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 and recognized as income at the end of each month. As of December 31, 2021 and 2020, there was no deferred rent.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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.

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, 2022, 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 this ASU 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 were available to be issued.

Subsequent Events

USPC evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through May 13, 2022, which is the date the financial statements were available to be issued.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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, 2021 and 2020:

	2021	2020
Deferred revenue, beginning of year	\$ 675,970	\$ 848,931
Revenue recognized during the year	(1,105,780)	(1,217,360)
Increase due to cash received during the year	1,194,175	1,044,399
Deferred revenue, end of year	<u>\$ 764,365</u>	<u>\$ 675,970</u>

Deferred income consists of the following at December 31, 2021 and 2020:

	2021	2020
Prepaid memberships	\$ 618,970	\$ 555,230
Prepayment on annual meeting	83,942	22,560
Other prepayments and advanced registrations	61,453	98,180
	<u>\$ 764,365</u>	<u>\$ 675,970</u>

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

4. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at December 31:

	2021	2020
Furniture and fixtures	\$ 184,370	\$ 184,370
Computer equipment and software	754,966	749,975
Building and improvements	2,052,382	2,052,382
Total property and equipment	<u>2,991,718</u>	<u>2,986,727</u>
Less accumulated depreciation	(1,869,756)	(1,781,514)
Total property and equipment, net	<u>\$ 1,121,962</u>	<u>\$ 1,205,213</u>

5. INVESTMENTS

Investments consist of the following as of December 31:

	2021	2020
Cash and cash equivalents	\$ 965,705	\$ 120,146
Fixed income mutual funds	1,683,060	523,267
Equity securities	3,488,439	4,690,313
Total investments	<u>\$ 6,137,204</u>	<u>\$ 5,333,726</u>

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

	2021	2020
Current assets:		
Investments	\$ 1,165,573	\$ 992,070
Other assets:		
Designated investments	4,131,584	3,583,310
Purpose restricted investments	810,047	738,346
Endowment investments	30,000	20,000
Total investments	<u>\$ 6,137,204</u>	<u>\$ 5,333,726</u>

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Investment income earned by these investments for the years ended December 31, 2021 and 2020, is reported net on the accompanying statement of activities and changes in net assets as follows:

	2021	2020
Interest and dividend income	\$ 82,863	\$ 173,009
Realized and unrealized gains (losses)	758,444	649,876
Investment management fees	(64,715)	(56,880)
Net investment income	<u>\$ 776,592</u>	<u>\$ 766,005</u>

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, 2021 and 2020.

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

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by USPC are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price.

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, 2021:

	Level 1	Level 2	Level 3	Total
Large Cap Growth	\$ 811,364	\$ -0-	\$ -0-	\$ 811,364
Large Cap Blend	667,239			667,239
Mid Cap Growth	888,158			888,158
Mid Cap Blend	601,493			601,493
Large Cap Value	370,788			370,788
Mid Cap Value	225,139			225,139
Small Cap Growth	180,779			180,779
Small Cap Blend	192,904			192,904
Small Cap Value	51,591			51,591
Sector	310,190			310,190
Large Capitalization Global Stock	128,778			128,778
Large Cap Foreign Equity	261,825			261,825
Preferred Stock	307,437			307,437
Other	173,814			173,814
Total investments at fair value	<u>\$ 5,171,499</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>5,171,499</u>
Cash and cash equivalents				965,705
Total				<u>\$ 6,137,204</u>

The following table presents the fair values of those investments at December 31, 2020:

	Level 1	Level 2	Level 3	Total
Large Cap - Growth	\$ 939,111	\$ -0-	\$ -0-	\$ 939,111
Large Cap - Other	819,510			819,510
Mid Cap - Growth	736,325			736,325
Mid Cap - Other	841,872			841,872
Multi-Sector Bond	341,353			341,353
Small Cap - Growth	283,636			283,636
Small Cap - Other	277,535			277,535
Corporate Investment Grade	271,424			271,424
Giant Cap Equity	228,574			228,574
Other	474,240			474,240
Total investments at fair value	<u>\$ 5,213,580</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>5,213,580</u>
Cash and cash equivalents				120,146
Total				<u>\$ 5,333,726</u>

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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, 2021 and 2020 was \$4,588 and \$49,297, respectively. The carrying amount of assets pledged as collateral was \$396,284 and \$423,905 at December 31, 2021 and 2020, respectively. Interest expense was \$1,322 and \$3,323 in 2021 and 2020, respectively. Assets pledged as collateral are classified as property and equipment in the accompanying statements of financial position. Future minimum principal payments under this loan are \$4,588 for the year ended December 31, 2022.

8. BOARD DESIGNATED NET ASSETS

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

	2021	2020
Board designated reserve	\$ 3,646,652	\$ 3,122,693
Building fund	147,796	135,210
Insurance and equipment funds	333,590	321,765
Total board designated net assets	<u>\$ 4,128,038</u>	<u>\$ 3,579,668</u>

Board Designated Reserve – represents a board designated reserve for the purpose of providing program excellence. Specific revenue sources are allocated to the fund by the Board in addition to investment income.

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

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, 2021, USPC had 7 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

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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 2021 and 2020, there were no deficiencies of this nature.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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, 2021 were as follows:

	Without Donor Restrictions	With Donor Restrictions	
		Purpose restricted	In perpetuity
Beginning of year	\$ 3,579,668	\$ 49,235	\$ 20,000
Contributions	1,500	610	10,000
Income earned on investments	65,448	479	-0-
Net realized gains (losses) on investments	159,756	446	-0-
Unrealized gains (losses) on investments	366,013	5,329	-0-
Amounts appropriated for expenditure	(44,347)	270	-0-
End of year	<u>\$ 4,128,038</u>	<u>\$ 56,369</u>	<u>\$ 30,000</u>

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

Composition of and changes in the designated net assets and permanently restricted net assets for the year ended December 31, 2020 were as follows:

	Without Donor Restrictions	With Donor Restrictions	
		Purpose restricted	In perpetuity
Beginning of year	\$ 3,167,873	\$ 34,109	\$ 20,000
Contributions	28,605	2,361	-0-
Income earned on investments	94,887	3,272	-0-
Net realized gains (losses) on investments	(12,978)	(201)	-0-
Unrealized gains (losses) on investments	426,164	9,694	-0-
Amounts appropriated for expenditure	(124,883)	-0-	-0-
End of year	<u>\$ 3,579,668</u>	<u>\$ 49,235</u>	<u>\$ 20,000</u>

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:

	2021	2020
Pitts Memorial	\$ 32,949	\$ 30,381
Strassburger Memorial	29,389	26,672
Renfro Fund	40,307	36,419
Taylor/Hundt Fund	23,911	22,688
Inter-Pacific Fund	146,998	135,662
Lenhert Fund	22,846	21,147
Brennan Memorial	145,202	136,286
Brookfield Fund	39,218	35,155
Helbert Fund	15,679	14,633
Margo Leithead Award	32,723	30,692
Mattingly Fund	180,752	158,504
Penrose Leadership Fund	42,881	38,657
Middle Tennessee	33,488	30,578
Bodgie Read Memorial Fund	10,000	-0-
Disaster Relief Fund	43,704	40,872
	<u>\$ 840,047</u>	<u>\$ 758,346</u>

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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.

Bodgie Read Memorial College Scholarship Fund – represents donor restricted net assets for the purpose of supporting Pony Club members who show a commitment to volunteering and a love of and participation in Dressage and Eventing competitions. In 2021, USPC received an initial investment of \$10,000 for the purpose of Dressage and Eventing competitions. 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. PAYCHECK PROTECTION PROGRAM

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act. One component of the CARES Act was the paycheck protection program (PPP) which provides small business with the resources needed to maintain payroll and cover applicable overhead. The PPP is implemented by the Small Business Administration (SBA) with support from the Department of the Treasury. The PPP provides funds to pay up to 24 weeks of payroll costs, including benefits. Funds can also be used to pay interest on mortgages, rent, and utilities. USPC applied for and was accepted to participate in this program. On April 5, 2020, USPC received funding of \$186,700.

The PPP loan is unsecured, bears interest at 1% and funds advanced under the program are subject to forgiveness, if certain criteria are met with the remaining balance within two years from the date of disbursement. The PPP loan may be forgivable to the extent that employers incur and spend the funds on qualified expenditures during the covered period, as defined. 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.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

During the year ended December 31, 2020, USPC received its first PPP loan in the amount of \$186,700. USPC applied for forgiveness under the PPP, which was granted by the SBA in May 2021 for the full amount. During the year ended December 31, 2021, USPC received its second PPP loan in the amount of \$177,327 and applied for forgiveness under the PPP, which was granted by the SBA in September 2021 for the full amount.

USPC has evaluated the PPP loan criteria and determined that the conditions for forgiveness for each loan were substantially met at December 31, 2021 and 2020, and therefore recognized \$177,327 and \$186,700 as federal grant revenue on the statements of activities for the years ended December 31, 2021 and 2020, respectively.

The SBA will have the right to audit USPC's compliance with the PPP for a period of up to six years. Any unfavorable outcome resulting from the SBA's review or audit will be reported once known and may materially impact USPC's financial position and/or results of future operations.

12. EMPLOYEE RETENTION CREDIT

The CARES Act included a provision for the Employee Retention Credit (ERC). The ERC is a fully refundable tax credit for employers equal to 70 percent of qualified wages (including allocable qualified health plan expenses) that eligible employers pay their employees. The ERC applies to qualified wages paid after March 13, 2020, until September 30, 2021. The credit is 70% of the first \$10,000 in wages per employee in each calendar quarter, meaning the ERC is worth up to \$7,000 per quarter and up to \$21,000 per calendar year, for each employee. USPC recognized \$113,185 of ERC as grant revenue during 2021.

13. 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 \$1,139,235 with accumulated depreciation of \$441,589 and \$410,640 for the years ended December 31, 2021 and 2020, respectively. The carrying amount of the building as of December 31, 2021 and 2020 was \$697,546 and \$728,595, respectively. Rental income received in 2021 and 2020 totaled \$86,077 and \$81,618, respectively. Future minimum rental income under the above referenced leases is as follows:

2022	\$	59,825
2023		59,825
2024		34,829
2025		28,413
Total	\$	<u>182,892</u>

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

14. 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 \$12,935 and \$11,286 in 2021 and 2020, respectively.

15. RELATED PARTIES

Contribution income for 2021 and 2020 included \$62,165 and \$45,854, respectively, from members of the Board of Governors, Advisory Committee, and staff.

16. 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.

17. 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, 2021 and 2020, 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.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

18. LIQUIDITY AND 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.

	2021	2020
Cash	\$ 893,995	\$ 606,800
Short-term investments	1,165,573	992,070
Accounts receivable	147,315	27,951
Add: endowment fund appropriation for following year	45,000	121,350
Financial assets available to meet cash needs for general expenditures within on year	<u>\$ 2,251,883</u>	<u>\$ 1,748,171</u>