



FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

THE UNITED STATES PONY CLUBS, INC.

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REPORT OF INDEPENDENT AUDITORS

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

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, 2022 and 2021, 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, 2022 and 2021, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the USPC adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). Our opinion is not modified with respect to this matter.

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 18, 2023

THE UNITED STATES PONY CLUBS, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Current assets:		
Cash	\$ 855,621	\$ 893,995
Investments	918,036	1,165,573
Accounts receivable	12,247	147,315
Inventory	12,156	12,510
Prepaid expenses	272,944	114,302
Total current assets	2,071,004	2,333,695
Property and equipment, net	1,232,938	1,121,962
Other noncurrent assets:		
Cash surrender value of life insurance	76,576	70,274
Investments	4,105,160	4,971,631
Total other noncurrent assets	4,181,736	5,041,905
Total assets	\$ 7,485,678	\$ 8,497,562
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 149,441	\$ 73,403
Tenant deposits	7,934	7,934
Current portion of long-term debt	-0-	4,588
Deferred income	731,750	764,365
Total current liabilities	889,125	850,290
Net assets:		
Without donor restrictions		
Undesignated	2,495,804	2,679,187
Designated by the Board	3,499,665	4,128,038
Total without donor restrictions	5,995,469	6,807,225
With donor restrictions		
Purpose restricted	541,084	810,047
In perpetuity	60,000	30,000
Total with donor restrictions	601,084	840,047
Total net assets	6,596,553	7,647,272
Total liabilities and net assets	\$ 7,485,678	\$ 8,497,562

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, 2022

	Without Donor Restrictions	With Donor Restrictions		Total
		Purpose Restricted	In perpetuity	
Support and revenues:				
Support:				
Contributions	\$ 318,726	\$ 10,755	\$ 30,000	\$ 359,481
KY Non Profit Assistance Fund Program	100,000			100,000
Net assets released from restrictions, satisfaction of program restrictions	36,345	(36,345)		-0-
Total support	455,071	(25,590)	30,000	459,481
Contract revenue:				
Annual meeting	99,687			99,687
Event revenue	159,081			159,081
Instruction	32,185			32,185
Membership dues and fees	1,014,030			1,014,030
Insurance	179,040			179,040
Shop Pony Club merchandise sales	158,511			158,511
Total contract revenue	1,642,534	-0-	-0-	1,642,534
Other revenue:				
Investment income (loss), net	(875,695)	(243,373)		(1,119,068)
Rent	89,606			89,606
Other	109,557			109,557
Total other revenue (loss)	(676,532)	(243,373)	-0-	(919,905)
Total support and revenues	1,421,073	(268,963)	30,000	1,182,110
Operating expenses:				
Program expenses	1,403,591			1,403,591
Management and general	609,985			609,985
Fundraising	219,253			219,253
Total operating expenses	2,232,829	-0-	-0-	2,232,829
Change in net assets	(811,756)	(268,963)	30,000	(1,050,719)
Net assets, beginning of year	6,807,225	810,047	30,000	7,647,272
Net assets, end of year	\$ 5,995,469	\$ 541,084	\$ 60,000	\$ 6,596,553

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	618,530	8,371	10,000	636,901
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	1,907,277	-0-	-0-	1,907,277
Other revenue:				
Investment income, net	713,262	63,330		776,592
Rent	86,077			86,077
Other	30,581			30,581
Total other revenue	829,920	63,330	0	893,250
Total support and revenues	3,355,727	71,701	10,000	3,437,428
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	2,423,656	-0-	-0-	2,423,656
Change in net assets	932,071	71,701	10,000	1,013,772
Net assets, beginning of year	5,875,154	738,346	20,000	6,633,500
Net assets, end of year	\$ 6,807,225	\$ 810,047	\$ 30,000	\$ 7,647,272

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2022

	Supporting services			2022 Total
	Program Services	Management and General	Fundraising	
Salaries and wages	\$ 437,632	\$ 322,863	\$ 92,310	\$ 852,805
Payroll taxes and employee benefits	115,084	84,903	24,275	224,262
	552,716	407,766	116,585	1,077,067
Annual meeting	29,038			29,038
Awards and scholarships	50,745			50,745
Buildings and occupancy	27,168	20,978	1,191	49,337
Credit card Fees	36,689		6,484	43,173
Championships and festivals	177,795			177,795
Committees	5,456			5,456
Shop Pony Club - cost of sales	116,579			116,579
Shop Pony Club - other expenses	9,910			9,910
Depreciation	40,146	30,998	1,759	72,903
General office expense	21,144	15,976	2,631	39,751
Instruction	59,977			59,977
Insurance	98,324	74,289	12,235	184,848
International exchanges	38,455			38,455
Meeting expense	26,439	19,975	3,290	49,704
Member services	44,025			44,025
Postage and printing	6,533	2,153	61,277	69,963
Professional services	21,609	16,326	2,689	40,624
Technology	35,028	19,827	3,745	58,600
Travel	3,569		2,912	6,481
Miscellaneous	2,246	1,697	4,455	8,398
	\$ 1,403,591	\$ 609,985	\$ 219,253	\$ 2,232,829

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.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (1,050,719)	\$ 1,013,772
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	72,903	88,242
Unrealized (gains) losses on investments	1,148,447	(572,882)
Realized (gains) losses on investments	18,182	(185,562)
Donated securities included in contributions	(1,049)	(10,010)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	135,068	(119,364)
Inventory	354	689
Prepaid expenses	(158,642)	99,094
Cash surrender value of life insurance	(6,302)	-0-
Increase (decrease) in liabilities:		
Accounts payable and other accrued liabilities	76,038	(30,455)
Tenant deposits	-0-	-0-
Deferred income	(32,615)	88,395
Net cash flows from operating activities	201,664	371,919
Cash flows from investing activities:		
Proceeds from sales of investments	92,003	1,590,790
Purchases of investments	(143,574)	(1,625,813)
Purchases of equipment and construction in progress	(183,879)	(4,992)
Net cash flows from investing activities	(235,450)	(40,015)
Cash flows from financing activities:		
Principal payments on long-term debt	(4,588)	(44,709)
Net change in cash	(38,374)	287,195
Cash, beginning of year	893,995	606,800
Cash, end of year	\$ 855,621	\$ 893,995
 Supplemental disclosures of cash flow information:		
Cash paid for interest expense	\$ 52	\$ 1,322
Donated securities	\$ 1,049	\$ 10,010

See accompanying notes to the financial statements.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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.
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THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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, 2022 and 2021; therefore, no allowance for doubtful accounts is necessary. The balance of receivables on January 1, 2021 was \$27,951.

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, 2022 AND 2021

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 \$72,903 and \$88,242 for 2022 and 2021, 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, 2021, was \$675,970.

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.

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.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

All other revenues are recognized when earned.

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 18, 2023, which is the date the financial statements were available to be issued.

2. CHANGE IN ACCOUNTING PRINCIPLE

On January 1, 2022, the USPC adopted the new lease accounting standard issued by the Financial Accounting Standards Board (FASB) and codified in the Accounting Standards Codification (ASC) as Topic 842 (ASC 842). The lease standard in ASC 842 intended to improve financial reporting about leasing transactions by requiring entities to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in ASC 842) of twelve months or less are not required to be reflected on an entity's balance sheet.

The USPC applied the modified retrospective approach to all lease agreements when adopting ASC 842. ASC 842 was applied retrospectively to the beginning of the period of adoption. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance in ASC 840. The adoption of ASC 842 had no material impact on the statement of financial position and no cumulative-effect adjustment was required to be recognized as of January 1, 2022.

The USPC elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether any expired or existing contracts contain a lease, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs, if any, before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement. In addition, the USPC elected the hindsight practical expedient to determine the lease term for existing leases.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

3. 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.

4. 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, 2022 and 2021:

	2022	2021
Deferred revenue, beginning of year	\$ 764,365	\$ 675,970
Revenue recognized during the year	(1,232,759)	(1,105,780)
Increase due to cash received during the year	1,200,144	1,194,175
Deferred revenue, end of year	<u>\$ 731,750</u>	<u>\$ 764,365</u>

Deferred income consists of the following at December 31, 2022 and 2021:

	2022	2021
Prepaid memberships	\$ 571,805	\$ 618,970
Prepayment on annual meeting	91,038	83,942
Other prepayments and advanced registrations	68,907	61,453
	<u>\$ 731,750</u>	<u>\$ 764,365</u>

5. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at December 31:

	2022	2021
Furniture and fixtures	\$ 184,370	\$ 184,370
Computer equipment and software	754,966	754,966
Building and improvements	2,236,262	2,052,382
Total property and equipment	<u>3,175,598</u>	<u>2,991,718</u>
Less accumulated depreciation	(1,942,660)	(1,869,756)
Total property and equipment, net	<u>\$ 1,232,938</u>	<u>\$ 1,121,962</u>

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

6. INVESTMENTS

Investments consist of the following as of December 31:

	2022	2021
Cash and cash equivalents	\$ 834,770	\$ 965,705
Fixed income mutual funds	684,850	1,683,060
Equity securities	3,503,576	3,488,439
Total investments	<u>\$ 5,023,196</u>	<u>\$ 6,137,204</u>

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

	2022	2021
Current assets:		
Investments	\$ 918,036	\$ 1,165,573
Other assets:		
Designated investments	3,534,076	4,131,584
Purpose restricted investments	541,084	810,047
Endowment investments	30,000	30,000
Total investments	<u>\$ 5,023,196</u>	<u>\$ 6,137,204</u>

Investment income earned by these investments for the years ended December 31, 2022 and 2021, is reported net on the accompanying statement of activities and changes in net assets as follows:

	2022	2021
Interest and dividend income	\$ 114,992	\$ 82,863
Realized and unrealized gains (losses)	(1,166,629)	758,444
Investment management fees	(67,431)	(64,715)
Net investment income	<u>\$ (1,119,068)</u>	<u>\$ 776,592</u>

7. FAIR VALUE MEASUREMENTS

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that USPC has the ability to access.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

- 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, 2022 and 2021.

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

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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, 2022:

	Level 1	Level 2	Level 3	Total
Large Cap Growth	\$ 778,974	\$ -0-	\$ -0-	\$ 778,974
Large Cap Blend	813,709			813,709
Mid Cap Growth	769,342			769,342
Mid Cap Blend	561,194			561,194
Large Cap Value	310,142			310,142
Mid Cap Value	76,149			76,149
Small Cap Growth	135,878			135,878
Small Cap Blend	46,041			46,041
Small Cap Value	9,587			9,587
Sector	123,131			123,131
Large Capitalization Global Stock	27,210			27,210
Large Cap Foreign Equity	86,942			86,942
Preferred Stock	257,665			257,665
Other	192,462			192,462
Total investments at fair value	<u>\$ 4,188,426</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,188,426</u>
Cash and cash equivalents				834,770
Total				<u>\$ 5,023,196</u>

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 UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

8. LONG-TERM DEBT

The USPC had a loan for \$368,624 at a fixed rate of 4.5% which was secured by the headquarters building. Monthly principal and interest payments of \$3,836 commenced on March 15, 2012 and the loan matured on February 15, 2022. The principal balance as of December 31, 2022 and 2021 was \$- and \$4,588, respectively. Interest expense was \$52 and \$1,322 in 2022 and 2021, respectively.

9. BOARD DESIGNATED NET ASSETS

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

	2022	2021
Board designated reserve	\$ 3,078,124	\$ 3,646,652
Building fund	134,845	147,796
Insurance and equipment funds	286,696	333,590
Total board designated net assets	<u>\$ 3,499,665</u>	<u>\$ 4,128,038</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.

10. ENDOWMENTS

As of December 31, 2022, USPC had four 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 four 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.

THE UNITED STATES PONY CLUBS, INC.

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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 2022 and 2021, there were no deficiencies of this nature.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

Return Objectives and Risk Parameters

USPC has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. 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. 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, 2022 were as follows:

	Without Donor Restrictions	With Donor Restrictions	
		Purpose restricted	In perpetuity
Beginning of year	\$ 4,128,038	\$ 56,369	\$ 30,000
Contributions	12,100	7,005	30,000
Income earned on investments	63,433	651	-0-
Net realized gains (losses) on investments	26,807	(232)	-0-
Unrealized gains (losses) on investments	(684,967)	(25,220)	-0-
Amounts appropriated for expenditure	(45,746)	(4,345)	-0-
End of year	<u>\$ 3,499,665</u>	<u>\$ 34,228</u>	<u>\$ 60,000</u>

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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>

11. 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:

	2022	2021
Pitts Memorial	\$ -0-	\$ 32,949
Strassburger Memorial	-0-	29,389
Renfro Fund	27,438	40,307
Taylor/Hundt Fund	16,889	23,911
Inter-Pacific Fund	-0-	146,998
International Exchange and Special Opportunities Fund	140,463	-0-
Lenhert Fund	17,873	22,846
Brennan Memorial	88,774	145,202
Brookfield Fund	30,799	39,218
Helbert Fund	9,816	15,679
Margo Leithead Award	20,447	32,723
Mattingly Fund	125,078	180,752
Penrose Leadership Fund	30,091	42,881
Middle Tennessee	22,659	33,488
Bodgie Read Memorial Fund	8,281	10,000
Reader Horse Management Fund	33,196	-0-
Disaster Relief Fund	29,280	43,704
	<u>\$ 601,084</u>	<u>\$ 840,047</u>

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Pitts Memorial – represents donor restricted net assets whose use is restricted to International Games Exchange as determined by the USPC Games Committee. With donor permission, this fund was consolidated into the International Exchange and Special Opportunities fund in 2022.

Strassburger Memorial – represents donor restricted net assets for activities of the International Tetrathlon Exchange and educational purposes as determined by USPC Tetrathlon Committee. With donor permission, this fund was consolidated into the International Exchange and Special Opportunities fund in 2022.

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. With donor permission, this fund was consolidated into the International Exchange and Special Opportunities fund in 2022.

International Exchange and Special Opportunities Fund – this is the consolidation of the Pitts Memorial, Strassburger Memorial, and Inter-Pacific funds which was formed in 2022 for the purpose of centralizing funding for all special opportunities. It represents donor restricted net assets for the support the hosting by USPC of International Exchanges including Foxhunting, Inter-Pacific, Mounted Games, Quiz, and Tetrathlon. Income for the fund is generated by donations restricted to this purpose and investment income.

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.

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.

THE UNITED STATES PONY CLUBS, INC.

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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.

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.

Reader Horse Management Educational Fund – represents donor restricted net assets for the purpose of providing travel grants to volunteer Provisional Chief Horse Management Judges to fulfill their requirements to become a Chief Horse Management Judge. In 2022, USPC received an initial investment of \$35,000. \$30,000 of the initial investment is to remain in the endowment, while the interest earned, and subsequent gifts can be used for expenditures that meets its purpose.

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

12. 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 provided small business with the resources needed to maintain payroll and cover applicable overhead. The PPP was implemented by the Small Business Administration (SBA) with support from the Department of the Treasury. The PPP provided funds to pay up to 24 weeks of payroll costs, including benefits. Funds could also be used to pay interest on mortgages, rent, and utilities.

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.

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.

13. 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.

14. TEAM KENTUCKY NONPROFIT ASSISTANCE FUND PROGRAM

In August 2022, the USPC applied for the Team Kentucky Nonprofit Assistance Fund Program. The purpose of this fund is to make one-time direct relief payments to eligible nonprofit organizations that are based in Kentucky, in active operation, remain active for the entirety of calendar year 2022 and have experienced net negative revenue between calendar years 2020 and 2021. The USPC's application was accepted and an award of \$100,000 was granted in October 2022. USPC recognized the full amount of this award as grant revenue in 2022.

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NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

15. LEASES AS LESSOR

USPC is the lessor under four tenant agreements in two buildings which provide office space and facilities to local horse organizations. Lease terms range from month-to-month to four years and include certain renewal options as stated in each lease agreement. Three leases combined make up approximately 50% of one building's square footage at December 31, 2022 and 2021, and the fourth lease makes up 37% of the second building's square footage at December 31, 2022 and 2021. Occupancy expenses related to the tenants are included in management and general expenses on the statements of activities and the statements of functional expenses.

The Organization elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether any expired or existing contracts contain a lease, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs, if any, before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement. The Organization also elected the hindsight practical expedient to determine the lease term for existing leases. In addition, the Organization has made a policy election to not separate the lease and non-lease components related to tenant lease agreements, where applicable.

Total rental income under operating leases was \$89,606 and \$86,077 for the years ended December 31, 2022 and 2021, respectively.

Future minimum rental payments due under these lease agreements at December 31, 2022 are as follows:

2023	59,825
2024	34,829
2025	28,413
Total	<u>\$ 123,067</u>

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, 2022 and 2021, there was no deferred rent.

16. 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 \$12,055 and \$12,935 in 2022 and 2021, respectively.

THE UNITED STATES PONY CLUBS, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

17. RELATED PARTIES

Contribution income for 2022 and 2021 included \$52,016 and \$62,165, respectively, from members of the Board of Governors, Advisory Committee, and staff.

18. 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.

19. 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, 2022 and 2021, 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, 2022 AND 2021

20. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

As part of USPC'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.

	2022	2021
Cash	\$ 855,621	\$ 893,995
Short-term investments	918,036	1,165,573
Accounts receivable	12,247	147,315
Add: endowment fund appropriation for following year	45,000	45,000
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,830,904</u>	<u>\$ 2,251,883</u>

21. CONTINGENT LIABILITIES

The USPC is subject to claims and lawsuits in the normal course of operations. The USPC insures against such risks when appropriate. As of March 7, 2023, the USPC was named a defendant in a lawsuit filed by a former member with claims originating in 1977. The range of any potential damages is indeterminate as of the date the financial statements were available to be issued. No accrual for a potential loss has been recorded at December 31, 2022 due to the uncertainty of the matter.