

EISNERAMPER

**UNITED STATES EQUESTRIAN TEAM
FOUNDATION, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2018 and 2017



INDEPENDENT AUDITORS' REPORT

The Board of Trustees
United States Equestrian Team Foundation, Inc.
Gladstone, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the United States Equestrian Team Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Foundation's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Equestrian Team Foundation, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



EISNERAMPER LLP
New York, New York
May 14, 2019



UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Statements of Financial Position

	December 31,	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 1,486,075	\$ 3,023,430
Contributions and pledges receivable, net	9,245,188	9,089,550
Accrued investment income receivable	36,273	50,153
Investments	12,483,699	11,901,724
Prepaid expenses	49,185	194,011
Property and equipment, net	<u>1,286,074</u>	<u>1,440,340</u>
	<u>\$ 24,586,494</u>	<u>\$ 25,699,208</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 20,596	\$ 133,464
Amounts held on behalf of others		<u>428,516</u>
Total liabilities	<u>20,596</u>	<u>561,980</u>
Commitments (Note N)		
NET ASSETS		
Without donor restrictions:		
Undesignated fund, available for general activities	1,952,015	2,584,862
Board-designated funds functioning as endowment	<u>3,698,793</u>	<u>3,811,049</u>
Total net assets without donor restriction	<u>5,650,808</u>	<u>6,395,911</u>
With donor restrictions:		
Purpose restrictions	3,429,043	4,382,465
Time-restricted for future periods	5,793,558	5,370,246
Perpetual in nature	<u>9,692,489</u>	<u>8,988,606</u>
Total net assets with donor restriction	<u>18,915,090</u>	<u>18,741,317</u>
Total net assets	<u>24,565,898</u>	<u>25,137,228</u>
	<u>\$ 24,586,494</u>	<u>\$ 25,699,208</u>

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Statements of Activities

	Year Ended December 31,					
	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:						
Contributions (including in-kind donations of \$8,525 and \$23,042 in 2018 and 2017, respectively)	\$ 2,871,369	\$ 4,920,012	\$ 7,791,381	\$ 423,324	\$ 11,653,586	\$ 12,076,910
Special events (net of direct benefits to participants of \$348,570 and \$314,497 in 2018 and 2017, respectively)	46,908		46,908	447,353		447,353
Bequests	30,000		30,000			
Interest and dividend income, net	12,835	168,206	181,041	30,642	126,128	156,770
Facility income	52,708		52,708	48,255		48,255
Insurance proceeds				39,413		39,413
Other income	40,440		40,440	42,557		42,557
Total public support and revenue before net assets released from restrictions	3,054,260	5,088,218	8,142,478	1,031,544	11,779,714	12,811,258
Net assets released from restrictions	4,064,183	(4,064,183)	0	5,552,466	(5,552,466)	0
Total public support and revenue	7,118,443	1,024,035	8,142,478	6,584,010	6,227,248	12,811,258
Expenses:						
Program:						
Competition and training - grants	3,566,819		3,566,819	3,191,362		3,191,362
Competition and training	2,220,048		2,220,048	1,371,115		1,371,115
Total program expenses	5,786,867		5,786,867	4,562,477		4,562,477
Supporting services:						
General and administrative	492,628		492,628	547,813		547,813
Fund-raising	1,290,389		1,290,389	1,101,380		1,101,380
Total supporting services	1,783,017		1,783,017	1,649,193		1,649,193
Total expenses before depreciation	7,569,884		7,569,884	6,211,670		6,211,670
Depreciation	176,631		176,631	175,819		175,819
Total expenses	7,746,515		7,746,515	6,387,489		6,387,489
Change in net assets before net realized and unrealized (losses) gains on investments	(628,072)	1,024,035	395,963	196,521	6,227,248	6,423,769
Net realized and unrealized (losses) gains on investments	(117,031)	(850,262)	(967,293)	472,339	1,101,575	1,573,914
Change in net assets	(745,103)	173,773	(571,330)	668,860	7,328,823	7,997,683
Net assets, beginning of year	6,395,911	18,741,317	25,137,228	5,727,051	11,412,494	17,139,545
Net assets, end of year	\$ 5,650,808	\$ 18,915,090	\$ 24,565,898	\$ 6,395,911	\$ 18,741,317	\$ 25,137,228

See notes to financial statements.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Statement of Functional Expenses

Year Ended December 31, 2018

(with summarized financial information for 2017)

	Program Services		Supporting Services			Totals	
	Competition and Training	Total Program Services	General and Administrative	Fund- raising	Total Supporting Services	2018	2017
Grants – United States Equestrian Federation, Inc.	\$ 3,440,000	\$ 3,440,000				\$ 3,440,000	\$ 3,041,000
Grants – domestic individual athletes	126,819	126,819				126,819	150,362
Salaries and wages – officers	326,620	326,620	\$ 47,808	\$ 294,194	\$ 342,002	668,622	669,983
Professional fees			119,744	114,392	234,136	234,136	287,574
Catering and other fundraising event expenses				532,835	532,835	532,835	351,489
Salaries and wages – non-officers	288,377	288,377	44,926	228,269	273,195	561,572	594,001
Payroll taxes and employee benefits	217,060	217,060	63,595	205,365	268,960	486,020	445,185
Communications and public relations	154,911	154,911	27,821	232,853	260,674	415,585	344,202
Information technology	30,968	30,968	30,969		30,969	61,937	70,365
Office	25,279	25,279	75,835		75,835	101,114	97,278
Utilities, cleaning, and other occupancy expenses	23,308	23,308	69,922		69,922	93,230	66,931
Competition related travel and accommodations and other travel	909,361	909,361	4,768	19,070	23,838	933,199	60,427
Insurance	146,007	146,007	5,546		5,546	151,553	143,563
Repairs and maintenance	89,688	89,688				89,688	170,434
Printing and postage	8,469	8,469	1,694	6,774	8,468	16,937	26,696
Miscellaneous				5,207	5,207	5,207	6,677
Total expenses before depreciation	5,786,867	5,786,867	492,628	1,638,959	2,131,587	7,918,454	6,526,167
Depreciation	135,038	135,038	14,562	27,031	41,593	176,631	175,819
Total expenses before direct benefit to donors	5,921,905	5,921,905	507,190	1,665,990	2,173,180	8,095,085	6,701,986
Less direct benefit to donors				(348,570)	(348,570)	(348,570)	(314,497)
	<u>\$ 5,921,905</u>	<u>\$ 5,921,905</u>	<u>\$ 507,190</u>	<u>\$ 1,317,420</u>	<u>\$ 1,824,610</u>	<u>\$ 7,746,515</u>	<u>\$ 6,387,489</u>

See notes to financial statements.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Statement of Functional Expenses Year Ended December 31, 2017

	Program Services		Supporting Services			Total
	Competition and Training	Total Program Services	General and Administrative	Fund- raising	Total Supporting Services	
Grants – United States Equestrian Federation, Inc.	\$ 3,041,000	\$ 3,041,000				\$ 3,041,000
Grants – domestic individual athletes	150,362	150,362				150,362
Salaries and wages – officers	327,285	327,285	\$ 47,905	\$ 294,793	\$ 342,698	669,983
Professional fees			147,074	140,500	287,574	287,574
Catering and other fundraising event expenses				351,489	351,489	351,489
Salaries and wages – non-officers	305,030	305,030	47,520	241,451	288,971	594,001
Payroll taxes and employee benefits	198,823	198,823	58,252	188,110	246,362	445,185
Communications and public relations	128,303	128,303	23,042	192,857	215,899	344,202
Information technology	35,182	35,182	35,183		35,183	70,365
Office	24,320	24,320	72,958		72,958	97,278
Utilities, cleaning, and other occupancy expenses	16,733	16,733	50,198		50,198	66,931
Competition related travel and accommodations and other travel			60,427		60,427	60,427
Insurance	138,309	138,309	5,254		5,254	143,563
Repairs and maintenance	170,434	170,434				170,434
Printing and postage	26,696	26,696				26,696
Miscellaneous				6,677	6,677	6,677
Total expenses before depreciation	4,562,477	4,562,477	547,813	1,415,877	1,963,690	6,526,167
Depreciation	134,417	134,417	14,495	26,907	41,402	175,819
Total expenses before direct benefit to donors	4,696,894	4,696,894	562,308	1,442,784	2,005,092	6,701,986
Less direct benefit to donors				(314,497)	(314,497)	(314,497)
	<u>\$ 4,696,894</u>	<u>\$ 4,696,894</u>	<u>\$ 562,308</u>	<u>\$ 1,128,287</u>	<u>\$ 1,690,595</u>	<u>\$ 6,387,489</u>

See notes to financial statements.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (571,330)	\$ 7,997,683
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	176,631	175,819
Donor restricted endowment contributions to be held in perpetuity	(703,883)	(2,551,856)
Net realized and unrealized losses (gains) on investments	967,293	(1,573,914)
Donated securities	(900,652)	(1,644,314)
Proceeds from sales of donated securities	900,652	1,644,314
Changes in:		
Contributions and pledges receivable	(155,638)	(5,866,827)
Other receivables	13,880	(7,290)
Prepaid expenses	144,826	(162,107)
Refundable advances	(428,516)	428,516
Accounts payable and accrued expenses	(112,868)	61,493
Net cash used in operating activities	<u>(669,605)</u>	<u>(1,498,483)</u>
Cash flows from investing activities:		
Purchases of improvements	(22,365)	(348,249)
Purchases of investments	(17,543,147)	(4,200,020)
Proceeds from sales of investments	<u>15,993,879</u>	<u>3,828,543</u>
Net cash used in investing activities	<u>(1,571,633)</u>	<u>(719,726)</u>
Cash flows from investing activities:		
Donor restricted endowment contributions to be held in perpetuity	<u>703,883</u>	<u>2,551,856</u>
Net change in cash and cash equivalents	(1,537,355)	333,647
Cash and cash equivalents, beginning of year	<u>3,023,430</u>	<u>2,689,783</u>
Cash and cash equivalents, end of year	<u>\$ 1,486,075</u>	<u>\$ 3,023,430</u>
Supplemental disclosure of cash flow information:		
In-kind donations	\$ 8,525	\$ 23,042

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2018 and 2017

NOTE A - SUMMARY OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

[1] The Organization:

The United States Equestrian Team Foundation, Inc. (the "Foundation"), incorporated in New Jersey in 1950 and formerly known as the United States Equestrian Team, Inc. (the "Team"), was formed as a not-for-profit organization to provide training, preparation, and financing to teams and individuals representing the United States in the Olympic Games, Pan-American Games, and other national and international competitions.

In 2003, the Team amended its by-laws to change its name and redefine its mission to raise funds and make grants to support international, high-performance, equestrian activities and teams, based on a plan agreed to by the Team and USA Equestrian, Inc. ("USAE") to create a new national governing body ("NGB") for the equestrian sport. The plan, structured to incorporate the strengths of each organization, created a new entity, the United States Equestrian Federation, Inc. ("USEF"), to carry on certain activities previously performed by the Team and USAE and established that the USEF is to provide all services required for equestrian sport, both national and international, to meet the obligations of a United States Olympic Committee-designated NGB. Effective December 1, 2003, the Team ceased its equestrian training and competition-related activities and commenced operations as the Foundation.

The Foundation is exempt from federal income tax under provisions of Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code") and from state and local taxes under comparable laws.

[2] Basis of accounting:

The accompanying financial statements of the Foundation have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to not-for-profit organizations.

[3] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

[4] Cash and cash equivalents:

For financial reporting purposes, the Foundation considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are invested in money-market funds, certificates of deposit and government-backed securities.

[5] Investments:

The Foundation's investments in equity securities, mutual funds, real estate investments trusts, exchange-traded funds, fixed-income bonds, and other fixed-income securities are reported at their fair values in the statements of financial position based on quoted market prices.

The Foundation's investments, in general, are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment vehicles, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2018 and 2017

NOTE A - SUMMARY OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[5] Investments: (continued)

Investment transactions are recorded on a trade-date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the accompanying statements of activities as increases or decreases in net assets without donor restrictions unless their use is donor restricted.

Realized gains and losses on investments are determined by comparison of the cost basis to proceeds at the time of disposition. Unrealized gains and losses on investments are determined by comparing the investment's cost to the fair value at the end of each year. The earnings from dividends and interest are recognized when earned.

Donated securities are recorded at their estimated fair values or by their net asset values as determined by the Foundation's management. The Foundation's policy is to sell the donated securities immediately, and, accordingly, for purposes of the statement of cash flows, donated securities and the proceeds generated from their sale are included within operating activities.

Investment expenses include the services of bank trustees, investment managers and custodians. The balances of investment management fees disclosed in Note C are those specific fees charged by the Foundation's various investment managers in each fiscal year; however, they do not include those fees that are embedded in various other investment accounts and transactions.

[6] Property and equipment:

Property and equipment are stated at their original costs at the date of acquisition, or, if contributed, at their fair values at the dates of donation. The Foundation capitalizes items of property and equipment that have a cost of \$2,500 or more and a useful life greater than one year, whereas minor costs of repairs and maintenance are expensed as incurred. Depreciation is calculated using the straight-line method over estimated useful lives of the related assets, which range from five to twenty-five years for improvements; three to ten years for office equipment; and five years for vehicles.

Management evaluates the recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of December 31, 2018 and 2017, respectively, and in the opinion of management, there were no impairments. However, it is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[7] Net assets:

(i) *Net Assets Without Donor Restrictions:*

The Foundation's net assets without donor restrictions represent those resources for which there are no restrictions by donors as to their use and are available for current operations. The Board of Trustees has designated a portion of net assets without donor restrictions to serve as an endowment for the Foundation to provide reserves for various Foundation programs (see also Note F).

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2018 and 2017

NOTE A - SUMMARY OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Net assets: (continued)

(ii) *Net Assets With Donor Restrictions:*

Net assets with donor restrictions represent those resources that are subject to donor imposed restrictions, such as specific purposes and/or the passage of time. Also included within net assets with donor restrictions are donor restrictions that are perpetual in nature and subject to the requirements of the State of New Jersey's Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). These donors have stipulated that those resources be maintained in perpetuity with the resultant income and net capital appreciation arising from the underlying assets to be used in satisfaction of the wishes of those donors. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, or funds are appropriated through an action of the Board of Trustees, net assets with donor restrictions are reclassified to net assets without donor restriction and are reported in the statements of activities as "net assets released from restrictions."

[8] Revenue recognition:

(i) *Contributions:*

Contributions to the Foundation are recognized as revenue upon the receipt of cash or other assets, or of unconditional pledges. Contributions are reported as "with donor restrictions" if they are received with donor stipulations or time considerations as to their use. Gross proceeds paid by attendees at special events held as fundraising activities represents contribution revenue as well as the payment of the direct cost of the benefit received by the attendee at the event. Special-event income is reported net of the direct benefit to donors. Special event revenues, other than contributions, applicable to a current year are recognized as revenue in the year a special event takes place. Special event revenue received for a future year's event is deferred and recognized when the event takes place. Conditional contributions are recognized when the donor's conditions have been met by requisite actions of the Foundation's management or necessary events have taken place. The Foundation records bequest income at the time it has an established right to a bequest and the proceeds are measurable. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved. Management reserves a portion of pledges and contribution receivable based on historical percentage of previously uncollected accounts.

(ii) *Facility income:*

Facility income is recognized according to the terms of each individual contract.

[9] Donated services:

For recognition of donated services in the Foundation's financial statements, such goods or services must (i) create or enhance non-financial assets, (ii) typically need to be acquired if not provided by donation, (iii) require a specialized skill, and (iv) be provided by individuals possessing these skills. Donated services are recorded as support at their estimated fair values at the dates of donation. Donated services are reported as both contributions and offsetting expenses in the statements of activities.

[10] Functional allocation of expenses:

The costs of providing the Foundation's various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, direct costs have been functionalized within the program and supporting services based on the nature of the expense. Indirect costs have been allocated on the basis of time and space allocations among employees.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2018 and 2017

NOTE A - SUMMARY OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[11] Income tax uncertainties:

The Foundation follows the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, as it relates to accounting and reporting for uncertainty in income taxes. For the Foundation, these provisions could be applicable to the incurrence of unrelated business income tax ("UBIT"). Because of the Foundation's general tax-exempt status, ASC Topic 740 has not had, and is not anticipated to have, a material impact on the Foundation's financial statements.

[12] Adoption of accounting pronouncement:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends financial-statement presentations and disclosures. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, and (iv) liquidity and the availability of resources. ASU 2016-14 was effective for annual reporting periods issued for years beginning after December 31, 2017. Accordingly, the Foundation was required to adopt ASU 2016-14 for its year-ended December 31, 2018, which under U.S. GAAP was a change in accounting principle requiring retroactive application in the financial statements of certain areas whereas certain other areas were adopted on a prospective basis. Although the Foundation's adoption of ASU 2016-14 had no effect on the Foundation's total net assets or its changes in net assets for 2018 and 2017, certain reclassifications were required. Accordingly, the Foundation changed its presentation of its net asset classes, added the statements of functional expenses, and expanded certain footnote disclosures.

[13] Subsequent events:

We evaluated subsequent events through May 14, 2019, the date on which the financial statements were available to be issued.

NOTE B - CONTRIBUTIONS AND PLEDGES RECEIVABLE

At each year-end, contributions and pledges receivable are estimated to be collected as follows:

	December 31,	
	2018	2017
2018		\$ 3,077,497
2019	\$ 3,451,630	2,172,000
2020	2,887,394	2,056,000
2021	2,032,500	1,476,000
2022	1,188,000	956,000
2023	328,000	150,000
Thereafter	75,000	
	9,962,524	9,887,497
Less: estimated uncollectible pledges	(147,044)	(146,995)
	9,815,480	9,740,502
Reduction of pledges due in excess of one year to present value, using a discount rate of 3.25%	(570,292)	(650,952)
	\$ 9,245,188	\$ 9,089,550

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

**Notes to Financial Statements
December 31, 2018 and 2017**

NOTE C - INVESTMENTS

At each year-end, investments consisted of the following:

	December 31,			
	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Equity securities (a)	\$ 4,863,490	\$ 5,280,314	\$ 8,896,100	\$ 5,640,605
Mutual funds:				
Bond funds			84,498	85,518
Equity funds			303,211	300,372
Real estate investment trusts	134,625	148,634		
Exchange-traded funds (b)	2,216,590	2,434,620		
Fixed-income bonds:				
Government	1,249,250	1,236,697	221,764	222,034
Corporate	2,100,318	2,097,307	2,396,151	2,379,304
Other fixed income securities (c)	<u>1,919,426</u>	<u>1,913,130</u>		
	<u>\$ 12,483,699</u>	<u>\$ 13,110,702</u>	<u>\$ 11,901,724</u>	<u>\$ 8,627,833</u>

(a) Domestic and international common stock.

(b) Invested in large blend, foreign large blend, diversified emerging markets, and mid-cap blend.

(c) Includes asset-backed securities (ABS), mortgage-backed securities (MBS), and collateralized mortgage obligations (CMOs).

During each year, investment returns consisted of the following:

	Year Ended December 31,	
	2018	2017
Interest and dividends	\$ 300,444	\$ 271,502
Investment management fees	<u>(119,403)</u>	<u>(114,732)</u>
	<u>181,041</u>	<u>156,770</u>
Realized gains	2,933,601	205,514
Unrealized (losses) gains	<u>(3,900,894)</u>	<u>1,368,400</u>
	<u>(967,293)</u>	<u>1,573,914</u>
	<u>\$ (786,252)</u>	<u>\$ 1,730,684</u>

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2018 and 2017

NOTE C - INVESTMENTS (CONTINUED)

The FASB's ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

Level 1 - Valuations are based on observable inputs that reflect quoted market prices in active markets for identical investments at the reporting date.

Level 2 - Valuations are based on: (i) quoted prices for similar investments in active markets, or (ii) quoted prices for those investments, or similar investments, in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.

Level 3 - Valuations are based on pricing inputs that are unobservable and include situations where there is little, if any, market activity for the investments, or the investments cannot be independently valued.

The available market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. For 2018 and 2017, there were no transfers among the fair-value hierarchy levels.

The following tables summarize the fair values of the Foundation's assets at each year-end, in accordance with the FASB's ASC Topic 820 valuation levels:

	December 31,					
	2018			2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Equity securities	\$ 4,863,490		\$ 4,863,490	\$ 8,896,100		\$ 8,896,100
Mutual funds				387,709		387,709
Real estate investment trusts	134,625		134,625			
Exchange-traded funds	2,216,590		2,216,590			
Fixed-income bonds		\$ 3,349,568	3,349,568		\$ 2,617,915	2,617,915
Other fixed income securities		1,919,426	1,919,426			
	<u>\$ 7,214,705</u>	<u>\$ 5,268,994</u>	<u>\$12,483,699</u>	<u>\$ 9,283,809</u>	<u>\$ 2,617,915</u>	<u>\$11,901,724</u>

NOTE D - PROPERTY AND EQUIPMENT

At each year-end, property and equipment consisted of the following:

	December 31,	
	2018	2017
Improvements	\$ 5,482,303	\$ 5,460,938
Office equipment	15,295	15,295
Vehicles	67,158	66,158
	5,564,756	5,542,391
Less: accumulated depreciation	<u>(4,278,682)</u>	<u>(4,102,051)</u>
	<u>\$ 1,286,074</u>	<u>\$ 1,440,340</u>

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2018 and 2017

NOTE E - AMOUNTS HELD ON BEHALF OF OTHERS

During 2017, the Foundation collected cash payments from individuals totaling approximately \$429,000, to be used to pay for hotel accommodations for a 2018 World Equestrian Games competition event.

NOTE F - DESCRIPTION OF NET ASSETS WITHOUT DONOR RESTRICTIONS

[1] Undesignated fund, available for general activities:

The portion of net assets without donor restrictions described as "undesignated fund, available for general activities" represent those resources for which there are no restrictions by donors as to their use and are available for current operations.

[2] Board-designated funds functioning as endowment:

The Board has approved \$75,000 for both 2018 and 2017 as additions to the board-designated funds. These additions to the board designated funds are considered to be related to the return of net assets with donor restrictions and held in perpetuity that were previously released by those donors.

(i) Capital Fund:

The Capital Fund is the Foundation's principal investment fund. It represents a reserve intended (i) to make monies available for yearly expenses should the undesignated fund not generate sufficient revenues to meet such expenses, and (ii) to provide monies for any major capital expenditures which the Board of Trustees may approve and the costs of which cannot be met by either current or special contributions.

Yearly income of the Capital Fund can be transferred by management to the undesignated category to meet operating expenses as required. The principal of the Capital Fund may be used for operating purposes or for capital expenditures only at the discretion of the Board. The Fund may be discontinued and the monies in the Fund transferred to another fund, at the discretion of the Board.

(ii) National Endowment Campaign Fund:

The National Endowment Campaign Fund was established to accommodate donors who have not restricted their campaign gifts. Donors may direct that the investment income on their gifts be unrestricted or designated as the Board chooses for a particular discipline or purpose. The Fund may be discontinued and the monies in the Fund transferred to another fund, at the discretion of the Board of Trustees.

(iii) Clark and Stone Fund:

The Forrester and Catherine Clark Fund was established by the Foundation's Executive Committee in honor of these two major benefactors of the Foundation. The Anne and Whitney Stone Memorial Fund was established by the Executive Committee, in accordance with a bequest from the estate of Mrs. Stone, to honor these two major benefactors of the Foundation. In January 2007, the Board approved combining the Clark and Stone Funds to continue their original purposes of providing support to operations and programs, as the Board of Trustees chooses.

Yearly income of the Fund may be transferred to the Operating Fund to meet operating expenses, as required. The principal of the Fund may be used for operating purposes or for capital expenditures only at the discretion of the Board. The Fund may be discontinued and the monies in the Fund transferred to another fund, at the discretion of the Board.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

**Notes to Financial Statements
December 31, 2018 and 2017**

NOTE F - DESCRIPTION OF NET ASSETS WITHOUT DONOR RESTRICTIONS (CONTINUED)

[2] Board-designated funds functioning as endowment: (continued)

(iv) Asmis, Baan, Caleel Dressage Fund:

The Carl-Heinrich Asmis Fund was established with a contribution from Mrs. Asmis. Grants were made annually from the Fund to assist American dressage riders, competing at the fourth level or above, with the expenses incurred to gain training and/or competitive experience in Europe. The Fiona V. Baan Fund was established by the Board of Trustee in recognition of Mrs. Baan's 27 years of dedication to the Foundation and for the development of dressage in America. It has been used to support those riders who have come up through the ranks of the Foundation's Young Riders Program, as they work toward making the transition toward FEI-level competition. The Maria Caleel Memorial Fund was established with a contribution from Dr. and Mrs. Richard Caleel. Yearly income from the Fund was used to make a grant annually to the winner of the Prix St. Georges/Intermediate I Championship, to assist with the expenses of training with a trainer approved by the Dressage Committee.

In January 2007, the Board approved combining the Asmis, Baan, and Caleel Funds to continue their original purposes of providing athlete dressage grants, but at the discretion of the Board. Yearly income will assist riders, through grants, with their continuing dressage training. The Fund Committee, appointed by the Executive Committee of the Board, will select the recipients of grants. The Fund may be discontinued and the monies in the Fund transferred to another fund, at the discretion of the Board.

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS

At each year-end, net assets with donor restrictions consisted of the following:

	December 31,	
	2018	2017
Restricted for future periods:	<u>\$ 5,793,558</u>	<u>\$ 5,370,246</u>
Purpose restricted:		
Awards	1,081,100	1,162,926
Facility maintenance	<u>974,264</u>	<u>1,270,143</u>
	<u>2,055,364</u>	<u>2,433,069</u>
Subject to appropriation:		
Accumulated endowment earnings	<u>1,373,679</u>	<u>1,949,396</u>
Perpetual in nature:		
Supporting International High Performance Disciplines	<u>9,692,489</u>	<u>8,988,606</u>
	<u>\$ 18,915,090</u>	<u>\$ 18,741,317</u>

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2018 and 2017

NOTE G - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

During each year, net assets released from restrictions resulted from satisfying the following donor restrictions:

	Year Ended December 31,	
	2018	2017
Time restrictions satisfied	<u>\$ 3,077,497</u>	<u>\$ 2,902,536</u>
Purpose restrictions satisfied:		
Awards	666,686	497,915
Facility maintenance	320,000	895,015
Endowment income appropriated for operations		<u>1,257,000</u>
	<u>986,686</u>	<u>2,649,930</u>
	<u>\$ 4,064,183</u>	<u>\$ 5,552,466</u>

NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENT

[1] The endowment:

The Foundation's endowment was established based on its mission and consists of both one donor-restricted endowment fund and four funds designated by the Board of Trustees to function as endowment (see Note F[2]).

[2] Funds with deficiencies:

Due to unfavorable market fluctuations, from time to time, the fair value of assets associated with individual donor-restricted endowment funds may decline below the historical dollar value of the donor's original contribution to be held in perpetuity. In 2018 and 2017, there were no such deficiencies.

[3] Return objectives and risk parameters:

The Foundation has adopted an investment objective and guidelines policy for endowment assets. The overall financial objective of the endowment assets is to provide the operations of the Foundation with a relatively stable stream of spendable revenue that increases over time. If this is to be achieved over the long term, the real (inflation-adjusted) value of the endowment assets must be preserved net of annual distribution to programs. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity, as well as board-designated funds. The detailed guidelines monitored closely by the Investment Committee include:

- Asset diversification provides reasonable assurance that no single security or class of security will have disproportionate impact on the total endowment assets.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2018 and 2017

NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENT (CONTINUED)

[3] Return objectives and risk parameters: (continued)

- Endowment assets are divided into two parts: (i) a "fixed-income fund" and (ii) an "equity fund" to ensure that the overall allocation between these two asset classes remains under the regular review of the Investment Committee.

The "fixed-income fund" should on average represent approximately 40% of the total endowment assets at market value to provide a hedge against severe deflation, reduce the overall volatility of the endowment assets' market value, and produce current income. This portion of the endowment assets is to achieve a total return, net of fees, superior to that of the Bank of America/Merrill Lynch 10-Year Corporate Bond Index, and at an average total return of institutional-quality fixed income managers.

The "equity fund" should on average represent approximately 60% of the total endowment assets at market value and is to provide an average annual total return.

- Minimum ratings, U.S. Treasury and agency allowances, classes of investments not permitted (options, derivatives and financial futures), holding limits and liquidity of investments are specified.

The long-term investment objective for the endowment assets is to attain a total return (net of investment management fees) above the rate of inflation, as measured by the Consumer Price Index.

[4] Strategies employed for achieving objectives:

To satisfy its long-term, rate-of-return objectives, the Foundation relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on cash-based investments to achieve its long-term return objectives within prudent risk constraints.

Historically, in order to achieve this investment objective, funds have had to exceed the objective substantially during some periods in order to compensate for shortfalls during other periods. It is recognized that this objective for the total endowment assets implies a relatively high average investment in equity securities and consequent market-price volatility.

[5] Spending policy and how the investment objectives relate to the spending policy:

The Investment Committee, when authorized by the Board of Trustees, may appropriate, at its discretion, up to 5% annually of the total market value of the endowment assets, calculated on a 48-month rolling average. During 2018, there was no appropriation from the endowment fund. During 2017, the Board of Trustees appropriated for expenditure \$1,257,000 of investment income from the Endowment Fund to complete the 2017 grant commitment.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

**Notes to Financial Statements
December 31, 2018 and 2017**

NOTE H - ACCOUNTING AND REPORTING FOR ENDOWMENT (CONTINUED)

[6] Endowment net-asset composition by type of fund:

	December 31, 2018			Total
	Without Donor Restriction	Amounts Subject to Appropriation	Amounts Held in Perpetuity	
Donor-restricted funds		\$ 1,373,679	\$ 9,692,489	\$11,066,168
Board-designated funds	<u>\$ 3,698,793</u>			<u>3,698,793</u>
Total endowment funds	<u>\$ 3,698,793</u>	<u>\$ 1,373,679</u>	<u>\$ 9,692,489</u>	<u>\$14,764,961</u>

	December 31, 2017			Total
	Without Donor Restriction	Amounts Subject to Appropriation	Amounts Held in Perpetuity	
Donor-restricted funds		\$ 1,949,396	\$ 8,988,606	\$ 10,938,002
Board-designated funds	<u>\$ 3,811,049</u>			<u>3,811,049</u>
Total endowment funds	<u>\$ 3,811,049</u>	<u>\$ 1,949,396</u>	<u>\$ 8,988,606</u>	<u>\$ 14,749,051</u>

Amounts subject to appropriation represent that portion of allocated investment income, derived from endowment assets held in perpetuity, that have not been appropriated by the Board of Trustees for expenditure.

[7] Changes in endowment net assets:

	Year Ended December 31, 2018			Total
	Without Donor Restriction	Amounts Subject to Appropriation	Amounts Held in Perpetuity	
Endowment funds, beginning of year	\$ 3,811,049	\$ 1,949,396	\$ 8,988,606	\$ 14,749,051
Contributions	90,000		703,883	793,883
Investment income	<u>(202,256)</u>	<u>(575,717)</u>		<u>(777,973)</u>
Endowment funds, end of year	<u>\$ 3,698,793</u>	<u>\$ 1,373,679</u>	<u>\$ 9,692,489</u>	<u>\$ 14,764,961</u>

	Year Ended December 31, 2017			Total
	Without Donor Restriction	Amounts Subject to Appropriation	Amounts Held in Perpetuity	
Endowment funds, beginning of year	\$ 3,194,920	\$ 2,234,345	\$ 2,971,801	\$ 8,401,066
Contributions	90,874		6,016,805	6,107,679
Investment income	525,255	972,051		1,497,306
Appropriated for expenditure		<u>(1,257,000)</u>		<u>(1,257,000)</u>
Endowment funds, end of year	<u>\$ 3,811,049</u>	<u>\$ 1,949,396</u>	<u>\$ 8,988,606</u>	<u>\$ 14,749,051</u>

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2018 and 2017

NOTE I - EMPLOYEE-BENEFIT PLAN

The Foundation maintains a defined-contribution employee-benefit plan under Section 403(b) of the Code covering all employees. The plan provides for matching contributions by the Foundation of 50% for 2018 and 40% for 2017, respectively, of employee contributions. Employees may contribute up to the maximum allowed by the Internal Revenue Service. All contributions by the participants and the Foundation are 100% vested and nonforfeitable. The Foundation made matching contributions of \$74,041 and \$59,581 to the plan on behalf of its employees for 2018 and 2017, respectively.

NOTE J - CONVEYED PROPERTIES

In February 2001, the Foundation was granted an easement for approximately 120 acres of the land and buildings that had previously been set aside for the Foundation's use. This conveyance provides for the use of the land and buildings in perpetuity, at no cost to the Foundation other than for related maintenance and repairs. The Foundation does not have title to the land or buildings and, accordingly, does not have any rights associated with ownership. The Foundation may only use the land and buildings for equestrian purposes; the character of the property is to remain as it was at the date of the grant, and any alterations or modifications to the existing landscape must be approved by the grantor. This conveyance is not included as a contribution or an asset in the accompanying financial statements.

NOTE K - DONATED GOODS AND SERVICES

Donated goods and services in 2018 and 2017 consisted of the following:

	<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Color ads	\$ 2,270	
Other services	<u>6,255</u>	<u>\$ 23,042</u>
	<u>\$ 8,525</u>	<u>\$ 23,042</u>

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2018 and 2017

NOTE L - LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Foundation's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of December 31, 2018 because of contractual or donor-imposed restrictions or internal designations.

The Foundation's financial assets available for general use within one year of the statements of financial position date for general expenditure and grant payments are as follows:

Cash and cash equivalents	\$ 1,486,075
Pledges and contributions receivable	9,245,188
Accrued investment income receivable	36,273
Investments	<u>12,483,699</u>
Total financial assets available within one year	<u>22,251,235</u>
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restrictions by donors with purpose restrictions	(3,429,043)
Restrictions by donors with time restrictions	(5,793,558)
Restricted by donors that are perpetual in nature	<u>(9,692,489)</u>
Total amounts unavailable for general expenditure within one year	<u>(18,915,090)</u>
Amounts unavailable to management without Board approval:	
Board-designated endowment	<u>(3,698,793)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 637,352</u>

Liquidity policy:

The Foundation's policy is to structure its financial assets to be available for its general expenditures, liabilities and other obligations as they come due. Additionally, the Foundation has Board designated net assets without donor restrictions that, although the Foundation doesn't intend to spend for purposes other than those identified, could be used to help manage unanticipated liquidity needs, if needed.

NOTE M - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash deposited in financial institutions in amounts which, from time to time, may exceed federal insurance limits. However, based on the current Federal Deposit Insurance Coverage, management believes the Foundation does not face a significant risk of loss on these accounts that might result from the failures of the financial institutions.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2018 and 2017

NOTE N - COMMITMENTS

[1] Leases:

In 2016, the Foundation entered into 60-month operating lease agreements for office copiers and a postage meter, with annual lease payments of approximately \$8,200 to be made through 2021.

[2] Other contracts:

In the normal course of business, the Foundation enters into various contracts for professional and other services, which are typically renewable on a year-to-year basis.