

EISNERAMPER

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

FINANCIAL STATEMENTS

DECEMBER 31, 2017 and 2016



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, 2017 and 2016, and the related statements of activities 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, 2017 and 2016, 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 16, 2018



UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Statements of Financial Position

	December 31,	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 3,023,430	\$ 2,689,783
Investments	11,901,724	9,956,333
Contributions and pledges receivable, net	9,089,550	3,222,723
Accrued investment income receivable	50,153	42,863
Prepaid expenses	194,011	31,904
Property and equipment, net	<u>1,440,340</u>	<u>1,267,910</u>
	<u>\$ 25,699,208</u>	<u>\$ 17,211,516</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 133,464	\$ 71,971
Amounts held on behalf of others	<u>428,516</u>	<u> </u>
	<u>561,980</u>	<u>71,971</u>
Commitment and contingencies (Note O)		
NET ASSETS		
Unrestricted:		
Undesignated fund, available for general activities	2,584,862	2,532,131
Board-designated funds functioning as endowment	<u>3,811,049</u>	<u>3,194,920</u>
	6,395,911	5,727,051
Temporarily restricted	9,752,711	8,440,693
Permanently restricted	<u>8,988,606</u>	<u>2,971,801</u>
	<u>25,137,228</u>	<u>17,139,545</u>
	<u>\$ 25,699,208</u>	<u>\$ 17,211,516</u>

See notes to financial statements.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Statements of Activities

	Year Ended December 31,							
	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:								
Contributions (including in-kind donations of \$23,042 and \$26,030 in 2017 and 2016, respectively)	\$ 423,324	\$ 5,636,781	\$ 6,016,805	\$ 12,076,910	\$ 1,069,973	\$ 1,080,478	\$ 2,500	\$ 2,152,951
Special events (net of direct benefits to participants of \$314,497 and \$874,924 in 2017 and 2016, respectively)	447,353			447,353	699,858			699,858
Bequests					94,847			94,847
Interest and dividend income, net	30,642	126,128		156,770	36,529	110,142		146,671
Facility income	48,255			48,255	31,624			31,624
Insurance proceeds	39,413			39,413				
Other income	42,557			42,557	47,068			47,068
Total public support and revenue before net assets released from restrictions	1,031,544	5,762,909	6,016,805	12,811,258	1,979,899	1,190,620	2,500	3,173,019
Net assets released from restrictions	5,552,466	(5,552,466)		0	3,594,119	(3,594,119)		0
Total public support and revenue	6,584,010	210,443	6,016,805	12,811,258	5,574,018	(2,403,499)	2,500	3,173,019
Expenses:								
Program:								
Competition and training/program administration/facility operations	1,110,090			1,110,090	919,645			919,645
Communications and public relations	261,025			261,025	249,733			249,733
Grants expense	3,191,362			3,191,362	3,940,995			3,940,995
Depreciation	175,819			175,819	153,084			153,084
General and administrative	547,810			547,810	551,106			551,106
Fund-raising	1,101,383			1,101,383	1,022,987			1,022,987
Total expenses	6,387,489			6,387,489	6,837,550			6,837,550
Change in net assets before net realized and unrealized gains on investments	196,521	210,443	6,016,805	6,423,769	(1,263,532)	(2,403,499)	2,500	(3,664,531)
Net realized and unrealized gains on investments	472,339	1,101,575		1,573,914	12,026	47,635		59,661
Change in net assets	668,860	1,312,018	6,016,805	7,997,683	(1,251,506)	(2,355,864)	2,500	(3,604,870)
Net assets, beginning of year	5,727,051	8,440,693	2,971,801	17,139,545	6,978,557	10,796,557	2,969,301	20,744,415
Net assets, end of year	\$ 6,395,911	\$ 9,752,711	\$ 8,988,606	\$ 25,137,228	\$ 5,727,051	\$ 8,440,693	\$ 2,971,801	\$ 17,139,545

See notes to financial statements.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Statements of Cash Flows

	Year Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 7,997,683	\$ (3,604,870)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	175,819	153,084
Gain on sale of property and equipment		(8,000)
Permanently restricted endowment contributions	(2,551,856)	0
Net realized and unrealized gains on investments	(1,573,914)	(59,661)
Donated securities	(1,644,314)	(678,417)
Proceeds from sales of donated securities	1,644,314	678,417
Changes in:		
Contributions and pledges receivable	(5,866,827)	1,683,534
Other receivables	(7,290)	1,746
Prepaid expenses	(162,107)	348,400
Refundable advances	428,516	(125,000)
Accounts payable and accrued expenses	61,493	27,695
Net cash used in operating activities	<u>(1,498,483)</u>	<u>(1,583,072)</u>
Cash flows from investing activities:		
Purchases of improvements	(348,249)	(485,875)
Proceeds from sale of property and equipment		8,000
Purchases of investments	(4,200,020)	(2,192,418)
Proceeds from sales of investments	3,828,543	2,926,123
Net cash (used in) provided by investing activities	<u>(719,726)</u>	<u>255,830</u>
Cash flows from investing activities:		
Permanently restricted endowment contributions	<u>2,551,856</u>	<u>0</u>
Net change in cash and cash equivalents	333,647	(1,327,242)
Cash and cash equivalents, beginning of year	<u>2,689,783</u>	<u>4,017,025</u>
Cash and cash equivalents, end of year	<u>\$ 3,023,430</u>	<u>\$ 2,689,783</u>
Supplemental disclosure of cash flow information:		
In-kind donations	\$ 23,042	\$ 26,030

See notes to financial statements.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2017 and 2016

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, and 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.

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 unrestricted net assets unless their use is restricted on a temporary or permanent basis through donor stipulation. Realized gains and losses on investments are

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2017 and 2016

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

[5] Investments: (continued)

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, as determined by the proceeds received on the dates of donation 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 B 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 expenses as incurred. Depreciation is calculated using the straight-line method over estimated useful lives of the respective 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, 2017 and 2016, 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) *Unrestricted operating and Board-designated:*

Unrestricted net assets represent those resources that are not subject to donor restrictions and are available for current operations. The Board of Trustees has designated a portion of unrestricted net assets to serve as an endowment of the Foundation to provide reserves for various Foundation programs (see also Note F).

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that are subject to the requirements of the State of New Jersey's Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and the use of which has been restricted by donors or state law to specific purposes and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, a purpose restriction is accomplished, or funds are appropriated through an action of the Board of Trustees, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities as "net assets released from restrictions".

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2017 and 2016

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

[7] Net assets: (continued)

(iii) *Permanently restricted:*

Permanently restricted net assets represent those resources the principal of which is originally restricted into perpetuity by its donors. The purposes for which the income and net capital appreciation arising from the underlying assets may be used depend on the wishes of those donors. Under the terms of UPMIFA, those earnings are classified as temporarily restricted in the accompanying statements of activities, pending appropriation by the Board of Trustees.

[8] Revenue recognition:

(i) *Contributions:*

Contributions to the Foundation are recognized as revenue upon the receipt of either cash or other assets, or of unconditional pledges. Contributions are recorded as either temporarily or permanently restricted if they are received with donor stipulations or time considerations as to their use. Conditional contributions are recorded when the conditions have been met, and if received in advance are recognized in the statements of financial position as funds received in advance. 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.

(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 financial statements, such services must (i) create or enhance non-financial assets, (ii) typically need to be acquired if not provided by donation, (iii) require specialized skills, and (iv) be provided by individuals possessing these skills. Donated services are recorded as support at their estimated fair value at the dates of donation and are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated services are reported as both contributions and offsetting expenses in the accompanying statement of activities.

[10] Functional allocation of expenses:

The costs of providing the various programs and supporting services have been summarized on a functional basis in Note M. Accordingly, direct costs have been allocated based on the nature of the expense or time allocation. Indirect costs have been allocated on the basis of utilization by department.

[11] Income tax uncertainties:

The Foundation is subject to 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. Because of the Foundation's general tax-exempt status, management believes ASC Topic 740 has not had, and is not anticipated to have, a material impact on the Foundation's financial statements.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2017 and 2016

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

[12] Upcoming accounting change:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 amends financial-statement presentations and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU No. 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and availability of resources, and (v) the presentation of operating cash flows. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Foundation will adopt this new pronouncement in 2018.

[13] Subsequent events:

We evaluated subsequent events through May 16, 2018, the date on which the financial statements were available to be issued.

NOTE B - INVESTMENTS

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

	December 31,			
	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Equity securities	\$ 8,896,100	\$ 5,640,605	\$ 7,004,015	\$ 5,106,197
Fixed-income bonds:				
Government	221,764	222,034	116,531	115,424
Corporate	2,396,151	2,379,304	2,169,354	2,157,894
Mutual funds:				
Bond funds	84,498	85,518	146,190	148,497
Equity funds	303,211	300,372	520,243	522,830
	<u>\$ 11,901,724</u>	<u>\$ 8,627,833</u>	<u>\$ 9,956,333</u>	<u>\$ 8,050,842</u>

Concentrations of the Foundation's investments in excess of 10% of the fair value of its portfolio included approximately 75% and 70% in common stock at December 31, 2017 and 2016, respectively, and approximately 20% and 22% in fixed-income bonds at December 31, 2017 and 2016, respectively.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2017 and 2016

NOTE B - INVESTMENTS (CONTINUED)

During each year, investment returns consisted of the following:

	Year Ended December 31,	
	2017	2016
Interest and dividends	\$ 271,502	\$ 251,429
Investment management fees	<u>(114,732)</u>	<u>(104,758)</u>
	<u>156,770</u>	<u>146,671</u>
Realized gains	205,514	1,734
Unrealized gains	<u>1,368,400</u>	<u>57,927</u>
	<u>1,573,914</u>	<u>59,661</u>
	<u>\$ 1,730,684</u>	<u>\$ 206,332</u>

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 assets and liabilities 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 2017 and 2016, 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,					
	2017			2016		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Equity securities	\$ 8,896,100		\$ 8,896,100	\$ 7,004,015		\$ 7,004,015
Fixed-income bonds		\$ 2,617,915	2,617,915		\$ 2,285,885	2,285,885
Mutual funds	<u>387,709</u>		<u>387,709</u>	<u>666,433</u>		<u>666,433</u>
	<u>\$ 9,283,809</u>	<u>\$ 2,617,915</u>	<u>\$11,901,724</u>	<u>\$ 7,670,448</u>	<u>\$ 2,285,885</u>	<u>\$ 9,956,333</u>

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

**Notes to Financial Statements
December 31, 2017 and 2016**

NOTE C - CONTRIBUTIONS AND PLEDGES RECEIVABLE

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

	December 31,	
	2017	2016
2017		\$ 1,976,891
2018	\$ 3,077,497	888,250
2019	2,172,000	270,000
2020	2,056,000	155,000
2021	1,476,000	25,000
2022	956,000	75,000
Thereafter	150,000	
	9,887,497	3,390,141
Less: estimated uncollectible pledges	(146,995)	(50,346)
	9,740,502	3,339,795
Reduction of pledges due in excess of one year to present value, using a discount rate of 3.25%	(650,952)	(117,072)
	\$ 9,089,550	\$ 3,222,723

NOTE D - PROPERTY AND EQUIPMENT

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

	December 31,	
	2017	2016
Improvements	\$ 5,460,938	\$ 5,112,689
Office equipment	15,295	15,295
Vehicles	66,158	66,158
	5,542,391	5,194,142
Less: accumulated depreciation	(4,102,051)	(3,926,232)
	\$ 1,440,340	\$ 1,267,910

During 2017, the Foundation's facilities incurred damage as a result of a storm. The Foundation received approximately \$39,000 from its insurance carrier to reimburse the Foundation for costs associated with storm repairs.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2017 and 2016

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 subsequent year's competition event.

NOTE F - DESCRIPTION OF UNRESTRICTED FUNDS

[1] Undesignated fund, available for general activities:

The portion of unrestricted net assets described as "undesignated, available for general activities" in the accompanying statements of financial position are used to account for the unrestricted operating revenues and expenses of the Foundation.

[2] Board-designated funds functioning as endowment:

The Board has approved \$75,000 for both 2017 and 2016 as additions to the board-designated funds. These additions to the board designated funds are considered to be related to the return of permanently restricted net assets previously released by donors.

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 can 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.

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.

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 can be transferred by management to the Operating Fund to meet operating expenses, as required. The principal of the Fund can 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, 2017 and 2016

NOTE F - DESCRIPTION OF UNRESTRICTED FUNDS (CONTINUED)

[2] Board-designated funds: (continued)

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, 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 - TEMPORARILY RESTRICTED NET ASSETS

At each year-end, temporarily restricted net assets consisted of the following:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Restricted for future periods	<u>\$ 6,317,315</u>	<u>\$ 3,638,694</u>
Restricted for following purposes:		
Awards	215,605	551,408
Facility maintenance	<u>1,270,143</u>	<u>2,015,977</u>
	<u>1,485,748</u>	<u>2,567,385</u>
Accumulated endowment income reserved for appropriation	<u>1,949,648</u>	<u>2,234,614</u>
	<u>\$ 9,752,711</u>	<u>\$ 8,440,693</u>

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2017 and 2016

NOTE G - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

During each year, net assets released from restrictions consisted of the following:

	Year Ended December 31,	
	2017	2016
Time restrictions satisfied	<u>\$ 2,965,738</u>	<u>\$ 2,509,228</u>
Purpose restrictions satisfied:		
Awards	434,713	528,949
Facility maintenance	895,015	555,942
Endowment income appropriated for operation	<u>1,257,000</u>	
	<u>2,586,728</u>	<u>1,084,891</u>
	<u>\$ 5,552,466</u>	<u>\$ 3,594,119</u>

NOTE H - PERMANENTLY RESTRICTED FUNDS

At each year-end, permanently restricted net assets consisted of funds to support the following:

	Year Ended December 31,	
	2017	2016
International High Performance Disciplines	<u>\$ 8,988,606</u>	<u>\$ 2,971,801</u>

NOTE I - 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, permanently restricted contribution. In 2017 and 2016, 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:

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2017 and 2016

NOTE I - ACCOUNTING AND REPORTING FOR ENDOWMENT (CONTINUED)

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

- Asset diversification provides reasonable assurance that no single security or class of security will have disproportionate impact on the total endowment assets.
- 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 draw, at its discretion, up to 5% annually of the total market value of the endowment assets, calculated on a 48-month rolling average. 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. During 2016, there was no withdrawal from the endowment fund.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

**Notes to Financial Statements
December 31, 2017 and 2016**

NOTE I - ACCOUNTING AND REPORTING FOR ENDOWMENT (CONTINUED)

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

	December 31, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds		\$ 1,949,396	\$ 8,988,606	\$10,938,002
Board-designated funds	<u>\$ 3,811,049</u>			<u>3,811,049</u>
Total funds	<u>\$ 3,811,049</u>	<u>\$ 1,949,396</u>	<u>\$ 8,988,606</u>	<u>\$14,749,051</u>

	December 31, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds		\$ 2,234,345	\$ 2,971,801	\$ 5,206,146
Board-designated funds	<u>\$ 3,194,920</u>			<u>3,194,920</u>
Total funds	<u>\$ 3,194,920</u>	<u>\$ 2,234,345</u>	<u>\$ 2,971,801</u>	<u>\$ 8,401,066</u>

Temporarily restricted endowment represents that portion of allocated investment income, derived from permanently restricted endowment assets, that has not been appropriated by the Board of Trustees for expenditure.

[7] Changes in endowment net assets:

	Year Ended December 31, 2017			Total
	Unrestricted Board-Designated	Temporarily Restricted	Permanently Restricted	
Net assets, 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>
Net assets, end of year	<u>\$ 3,811,049</u>	<u>\$ 1,949,396</u>	<u>\$ 8,988,606</u>	<u>\$14,749,051</u>

	Year Ended December 31, 2016			Total
	Unrestricted Board-Designated	Temporarily Restricted	Permanently Restricted	
Net assets, beginning of year	\$ 2,996,844	\$ 2,167,795	\$ 2,969,301	\$ 8,133,940
Contributions	155,000		2,500	157,500
Investment income	43,076	66,550		109,626
Net assets, end of year	<u>\$ 3,194,920</u>	<u>\$ 2,234,345</u>	<u>\$ 2,971,801</u>	<u>\$ 8,401,066</u>

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2017 and 2016

NOTE J - 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 40% for 2017 and 2016, 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 \$59,581 and \$61,368 to the plan on behalf of its employees for 2017 and 2016, respectively.

NOTE K - 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 L - DONATED GOODS AND SERVICES

Donated goods and services in 2017 and 2016 consisted of the following:

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Use of mailing lists		\$ 13,565
Other services	<u>\$ 23,042</u>	<u>12,465</u>
	<u>\$ 23,042</u>	<u>\$ 26,030</u>

NOTE M - PROGRAM AND SUPPORTING EXPENSES

Generally accepted accounting principles require that the Foundation's expenses be reported on a functional basis. Accordingly, expenses were allocated among program and supporting services as follows:

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Program	<u>\$ 4,738,296</u>	\$ 5,227,408
Management and general	<u>662,542</u>	668,485
Fund-raising	<u>1,415,880</u>	<u>1,921,339</u>
	<u>\$ 6,816,718</u>	<u>\$ 7,817,232</u>

The above expenses are inclusive of expenses that have been net of revenue in the accompanying statements of activities. Direct benefit to participants are reported as fund-raising expenses and investment expenses, as disclosed in Note B, are reported as management and general.

UNITED STATES EQUESTRIAN TEAM FOUNDATION, INC.

Notes to Financial Statements December 31, 2017 and 2016

NOTE N - 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.

NOTE O - COMMITMENT AND CONTINGENCIES

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.

During the course of the year, from time to time the Foundation is subject to litigation in the ordinary course of conducting its business, and management does not believe the outcome of these current matters would have an adverse impact on the Foundation's financial position.