



UNITED STATES EQUESTRIAN FEDERATION, INC.

FINANCIAL STATEMENTS

NOVEMBER 30, 2022 AND 2021

UNITED STATES EQUESTRIAN FEDERATION, INC.

TABLE OF CONTENTS NOVEMBER 30, 2022 AND 2021

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



Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
United States Equestrian Federation, Inc.
Lexington, Kentucky

Opinion

We have audited the accompanying financial statements of the United States Equestrian Federation, Inc. ("USEF"), a nonprofit organization, which comprise the statement of financial position as of November 30, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 USEF as of November 30, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 USEF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of USEF as of November 30, 2021, were audited by other auditors, whose report dated July 19, 2022, expressed an unmodified opinion on those statements.

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 USEF'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 USEF'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 USEF'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

July 19, 2023

UNITED STATES EQUESTRIAN FEDERATION, INC.

STATEMENTS OF FINANCIAL POSITION NOVEMBER 30, 2022 AND 2021

	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,733,724	\$ 12,080,110
Investments	14,815,645	13,869,731
Receivables, net	1,758,135	539,547
Due from USA Equestrian Trust	9,238	9,238
Prepaid expenses and other current assets	815,107	884,278
Total current assets	27,131,849	27,382,904
Property and equipment, net	9,096,259	9,798,879
Other assets		
Due from USA Equestrian Trust, less current portion	-	9,238
Trophy collection	516,172	516,172
Prepaid expenses, long-term portion	298,725	571,413
Total other assets	814,897	1,096,823
Total assets	\$ 37,043,005	\$ 38,278,606
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,260,612	\$ 3,135,204
Current portion of deferred revenue	4,505,069	4,537,875
Current portion of bonds payable	192,116	181,390
Total current liabilities	7,957,797	7,854,469
Deferred revenue, less current portion	2,563,537	2,741,027
Bonds payable, less current portion and deferred financing fees	5,540,138	5,733,958
Derivative liability	399,201	426,856
Total liabilities	16,460,673	16,756,310
Net assets:		
Without donor restrictions	20,021,558	20,973,526
With donor restrictions	560,774	548,770
Total net assets	20,582,332	21,522,296
Total liabilities and net assets	\$ 37,043,005	\$ 38,278,606

See accompanying notes to the financial statements.

UNITED STATES EQUESTRIAN FEDERATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED NOVEMBER 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Membership dues and fees	\$ 10,681,437	\$ -	\$ 10,681,437
Drugs and medication	5,839,726	-	5,839,726
Sponsorships and royalties	2,759,954	-	2,759,954
Marketing, communications and publications	1,670,394	-	1,670,394
Competition dues, fees and income	5,416,349	-	5,416,349
USET Foundation	160,000	3,000,000	3,160,000
USOPC funding	-	1,578,030	1,578,030
Sport programs	505,058	-	505,058
Regulations	153,204	-	153,204
International high performance	2,165,880	-	2,165,880
Contributions	11,341	160,723	172,064
Investment Income	515,755	-	515,755
Net unrealized gain (loss) on investments	(1,512,217)	-	(1,512,217)
Gain (loss) on disposal of fixed assets	(111,715)	-	(111,715)
Gain (loss) on interest swap rate	27,655	-	27,655
Other	233,146	-	233,146
Total revenues, gains and other support	28,515,967	4,738,753	33,254,720
Released from restrictions	4,726,749	(4,726,749)	-
Expenses			
Program services			
Sport programs	14,518,642	-	14,518,642
Fairness, safety, and welfare	6,749,976	-	6,749,976
Member services	4,996,444	-	4,996,444
Grants	197,207	-	197,207
Total program services	26,462,269	-	26,462,269
Supporting services	7,732,415	-	7,732,415
Total expenses	34,194,684	-	34,194,684
Change in net assets	(951,968)	12,004	(939,964)
Net assets, beginning of year	20,973,526	548,770	21,522,296
Net assets, end of year	\$ 20,021,558	\$ 560,774	\$ 20,582,332

See accompanying notes to the financial statements.

UNITED STATES EQUESTRIAN FEDERATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED NOVEMBER 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Membership dues and fees	\$ 9,889,938	\$ -	\$ 9,889,938
Drugs and medication	5,142,294	-	5,142,294
Sponsorships and royalties	2,893,046	-	2,893,046
Marketing, communications and publications	1,020,836	-	1,020,836
Competition dues, fees and income	4,681,250	-	4,681,250
USET Foundation	160,000	4,000,000	4,160,000
USOPC funding	-	1,231,385	1,231,385
Sport programs	485,873	-	485,873
Regulations	115,893	-	115,893
International high performance	1,811,655	-	1,811,655
Contributions	18,600	93,647	112,247
Paycheck Protection Program forgiveness	1,927,200	-	1,927,200
Investment Income	308,868	-	308,868
Net unrealized gain on investments	953,073	-	953,073
Gain (loss) on disposal of fixed assets	119,424	-	119,424
Gain (loss) on interest swap rate	287,633	-	287,633
Other	385,796	-	385,796
Total revenues, gains and other support	30,201,379	5,325,032	35,526,411
Released from restrictions	5,273,710	(5,273,710)	-
Expenses			
Program services			
Sport programs	12,056,499	-	12,056,499
Fairness, safety, and welfare	5,328,312	-	5,328,312
Member services	4,732,414	-	4,732,414
Grants	44,000	-	44,000
Total program services	22,161,225	-	22,161,225
Supporting services	5,497,629	-	5,497,629
Total expenses	27,658,854	-	27,658,854
Change in net assets	7,816,235	51,322	7,867,557
Net assets, beginning of year	13,157,291	497,448	13,654,739
Net assets, end of year	\$ 20,973,526	\$ 548,770	\$ 21,522,296

See accompanying notes to the financial statements.

UNITED STATES EQUESTRIAN FEDERATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED NOVEMBER 30, 2022

	Sport Programs	Fairness, Safety, and Welfare	Member Services	Grants	Total Program Services	Total Supporting Services	Total
Salaries and other employee benefits	\$ 3,432,907	\$ 1,990,180	\$ 3,004,791	\$ -	\$ 8,427,878	\$ 3,187,709	\$ 11,615,587
Professional and temporary fees	51,782	63,683	52,013	-	167,478	324,423	491,901
Occupancy and utilities	304,027	140,341	93,765	-	538,133	86,876	625,009
Depreciation	163,565	116,832	186,931	-	467,328	164,624	631,952
Legal fees	54,409	72,337	62,182	-	188,928	157,990	346,918
Interest	45,919	32,799	52,478	-	131,196	47,541	178,737
Insurance	104,644	98,538	78,929	-	282,111	103,729	385,840
Office expense and supplies	67,873	27,447	140,007	-	235,327	150,319	385,646
Travel, meetings and conferences	1,755,142	106,805	85,819	-	1,947,766	541,059	2,488,825
Information technology	169,414	121,010	193,616	-	484,040	161,346	645,386
Other administrative and finance costs	168,982	119,208	221,763	-	509,953	450,582	960,535
Gifts and grants	121,125	7,983	5,684	197,207	331,999	8,484	340,483
Marketing and communication	244,781	192,619	234,511	-	671,911	2,337,607	3,009,518
Banned substance collection, testing	-	3,594,065	-	-	3,594,065	-	3,594,065
FEI sport training and selection	7,594,990	87	582,053	-	8,177,130	-	8,177,130
Non-FEI sport training and selection	45,881	9,639	-	-	55,520	-	55,520
Awards	191,533	-	-	-	191,533	-	191,533
Education clinics	-	55,212	-	-	55,212	-	55,212
Miscellaneous	854	610	972	-	2,436	826	3,262
Bad debt expense	814	581	930	-	2,325	9,300	11,625
Total expenses	\$ 14,518,642	\$ 6,749,976	\$ 4,996,444	\$ 197,207	\$ 26,462,269	\$ 7,732,415	\$ 34,194,684

See accompanying notes to the financial statements.

UNITED STATES EQUESTRIAN FEDERATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED NOVEMBER 30, 2021

	Sport Programs	Fairness, Safety, and Welfare	Member Services	Grants	Total Program Services	Total Supporting Services	Total
Salaries and other employee benefits	\$ 2,715,995	\$ 1,454,758	\$ 2,454,417	\$ -	\$ 6,625,170	\$ 2,309,180	\$ 8,934,350
Professional and temporary fees	60,452	62,722	61,027	-	184,201	189,500	373,701
Occupancy and utilities	261,071	99,333	48,579	-	408,983	99,925	508,908
Depreciation	202,101	124,370	233,193	-	559,664	186,555	746,219
Legal fees	68,610	72,031	86,088	-	226,729	208,040	434,769
Interest	58,087	35,746	67,023	-	160,856	53,619	214,475
Insurance	116,665	50,669	95,005	-	262,339	76,004	338,343
Office expense and supplies	68,873	39,914	150,058	-	258,845	144,007	402,852
Travel, meetings and conferences	130,211	256,527	74,445	-	461,183	254,328	715,511
Information technology	141,965	87,363	163,806	-	393,134	131,045	524,179
Other administrative and finance costs	60,472	38,389	504,932	-	603,793	129,528	733,321
Gifts and grants	81,523	192	1,374	44,000	127,089	813	127,902
Marketing and communication	154,834	95,282	178,654	-	428,770	1,715,081	2,143,851
Banned substance collection, testing	-	2,884,416	-	-	2,884,416	-	2,884,416
FEI sport training and selection	7,883,643	-	-	-	7,883,643	-	7,883,643
Non-FEI sport training and selection	42,837	11,741	497,177	-	551,755	-	551,755
Awards	9,156	-	116,631	-	125,787	-	125,787
Education clinics	-	14,856	-	-	14,856	-	14,856
Miscellaneous	(215)	(132)	(248)	-	(595)	(199)	(794)
Bad debt expense	219	135	253	-	607	203	810
Total expenses	\$ 12,056,499	\$ 5,328,312	\$ 4,732,414	\$ 44,000	\$ 22,161,225	\$ 5,497,629	\$ 27,658,854

See accompanying notes to the financial statements.

UNITED STATES EQUESTRIAN FEDERATION, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED NOVEMBER 30, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (939,964)	\$ 7,867,557
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	635,760	750,028
Provision for bad debts	11,625	810
(Gain) loss on disposal of fixed assets	111,715	(119,424)
Net unrealized (gain) loss on investments	1,512,217	(953,073)
(Gain) loss on interest rate swap	(27,655)	(287,633)
Paycheck Protection Program forgiveness	-	(1,927,200)
Changes in operating assets and liabilities:		
Receivables	(1,230,213)	909,543
Due from USA Equestrian Trust	9,238	7,550
Due to USA Equestrian Trust	-	-
Prepaid expenses and other assets	341,859	927,406
Accounts payable and accrued expenses	125,408	724,309
Deferred revenue	(214,105)	422,585
Net cash flows from operating activities	335,885	8,322,458
Cash flows from investing activities:		
Purchases of property and equipment	(41,046)	(248,713)
Purchases of investments	(5,724,675)	(12,616,841)
Proceeds from sale of investments	3,266,544	11,045,493
Net cash flows from investing activities	(2,499,177)	(1,820,061)
Cash flows from financing activities:		
Payments on bonds payable	(183,094)	(1,781,391)
Payments on line of credit	-	(1,000,000)
Net cash from financing activities	\$ (183,094)	\$ (2,781,391)
Net change in cash and cash equivalents	(2,346,386)	3,721,006
Cash and cash equivalents, beginning of year	12,080,110	8,359,104
Cash and cash equivalents, end of year	\$ 9,733,724	\$ 12,080,110
Supplemental disclosures of cash flow information:		
Cash paid for interest expense	\$ 174,928	\$ 210,666
Supplemental disclosure of non-cash operating and investing activities:		
In-kind donations	\$ 160,000	\$ 160,000

See accompanying notes to the financial statements.

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of United States Equestrian Federation, Inc. , (USEF) is presented to assist in understanding the USEF's financial statements. The financial statements and notes are representations of the USEF'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 Organization

The United States Equestrian Federation, Inc. (the "Federation") was formed on December 1, 2003. Its purpose is to serve as the National Governing Body ("NGB") of equestrian sports in the United States of America. The Federation provides leadership for equestrian sport in the United States by promoting the pursuit of excellence based on a foundation of fair, safe competition, and the welfare of its human and equine athletes.

Basis of Accounting

The financial statements of the USEF have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Federation considers all liquid investments purchased with an original maturity of three months or less to be cash equivalents.

At various times throughout the fiscal year, the Federation had in excess of \$250,000 on deposit with a financial institution whose deposits are federally insured up to \$250,000.

Investments and Investment Income

Investments are stated at fair value based on quoted market prices or dealer quotes. Fair value of investments is subject to significant fluctuations due to market changes. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on investments, interest and dividends, net of investment fees) is included in the change in net assets without donor restriction unless the income or loss is restricted by donor or law.

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

Accounts Receivable (Contract Receivable)

Receivables consist of advertising, contractual agreements and sponsorship payments owed to the Federation at the end of the fiscal year. The allowance for doubtful accounts is based on the Federation's past collection experience, account balances greater than 60 days past due and communication with the organizations. Losses are charged to the allowance when the Federation deems further collection efforts will not produce additional recoveries. The allowance for doubtful accounts was \$34,950 and \$50,000 at November 30, 2022 and 2021, respectively. The balance of receivables on January 1, 2021 was \$1,449,900.

Due from USA Equestrian Trust

Due from USA Equestrian Trust represents the amount owed to the Federation to fund the life membership deferred income. Life memberships are amortized over a 20-year period beginning in the year in which the membership was received. All amounts are due to be paid in full by 2023.

Trophy Collection

The Federation has an extensive collection of trophies that have been contributed to or purchased by the Federation. This trophy collection is maintained by the Federation for public exhibition in furtherance of membership service. The trophy collection is valued at appraised value, if donated, and cost, if purchased by the Federation.

Property and Equipment

Property and equipment, including equipment leased under capital leases, are recorded at cost, and are depreciated using the straight-line method over their estimated useful lives, which range from three to forty years. Leasehold improvements are amortized on the straight-line basis over the life of the lease. The Federation has an accounting policy requiring capitalization of all property and equipment purchases that are at least \$5,000.

Deferred Revenue

Deferred revenue represents membership fees which have been received but for which the prescribed services have not yet been performed. These fees include annual memberships as well as life memberships, which are amortized over 20 years. Annual membership fees will be recognized as income in the following fiscal year when services are rendered, whereas the Federation will recognize income on the life membership over 20 years.

The Federation recorded gains of \$119,424 for the years ended November 30, 2022 and 2021, respectively.

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

Deferred Financing Fees

The Federation has capitalized costs relating to its bond financing and will amortize these costs over the life of the bonds using the straight-line method, which approximates the effective interest method when the funding is complete. Deferred financing fees are included as a direct deduction from the carrying amount of the bonds in the accompanying statement of financial position. Amortization of deferred financing fees was \$3,809 for the years ended November 30, 2022 and 2021.

Derivative Financial Instruments

The Federation entered into an interest rate swap agreement, which is a derivative financial instrument. The Federation recognizes derivative instruments as either assets or liabilities at fair value. The change in the fair value of these derivatives is recognized as expenses in the period the change occurs.

Net Assets

Net assets have been classified and reported as follows:

Net assets without donor restrictions are not subject to donor-imposed stipulations. Net assets without restrictions may be designated for specific purposes by action of the Board of Directors.

Net assets with donor restrictions are related to gifts with explicit donor-imposed restrictions that have not been met as to a specific purpose or time.

The Federation had no donor restrictions of a permanent nature as of November 30, 2022 or 2021. Revenue is reported as an increase 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. Net assets are released from restriction when expenses satisfying the restricted purpose are incurred or by occurrence of other events. 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 law. Expirations of net assets with donor restrictions (i.e., the donor- stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

Contributions

Contributions received and unconditional promises to give are recorded as net assets without donor restrictions or net assets with donor restrictions revenue depending on the existence of donor restrictions and the nature of such restrictions if they exist. Donor restricted gifts that are received for which their restricted purpose is met during the same year, are initially recorded as net assets with donor restrictions and then reported as net assets released from restrictions and reclassified to net assets without donor restrictions.

Functional Allocations of Expenses

The majority of expenses can generally be directly identified with the programs or supporting service to which they relate and are charged accordingly. Other categories of expenses are attributable to one or more programs or supporting functions of the Federation. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization, occupancy and utilities, salaries and other employee benefits, other administrative and finance costs, and marketing and communication, which are allocated based on headcount. The Federation's supporting services expenses primarily relate to management and general expenses.

Income Taxes

The Federation is exempt from income taxes on income from related activities under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, the Federation has been determined not to be a private foundation under Section 509(a) of the Internal Revenue Code. Since the Federation is publicly-supported, contributions to the Federation qualify for the maximum charitable contribution deduction under the Internal Revenue Code. The Federation is also exempt from state and local income taxes.

Current accounting standards require the Federation to disclose the amount of potential benefit or obligation to be realized as a result of an examination performed by a taxing authority. For the years ended November 30, 2022 and 2021, management has determined that the Federation does not have any tax positions that result in any uncertainties regarding the possible impact on the Federation's financial statements. There was no change in this determination during the 2022 fiscal year.

The Federation records any interest and penalties as expense in the period incurred and no amounts have been recorded for the years ended November 30, 2022 and 2021, respectively.

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

Use of Estimates in the Preparation of Financial Statements

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 and disclosure of contingent 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 differ from those estimates.

Recently Issued Accounting Standards

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This new standard, which USEF is not required to adopt until its year ending November 30, 2023, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position. USEF is presently evaluating the effects that this ASU will have on its future financial statements, including disclosures.

Reclassifications

Certain amounts from the 2021 financial statements have been reclassified to conform to the 2022 presentation.

Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to November 30, 2022 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended November 30, 2022. Management has performed their analysis through July 19, 2023, the date the financial statements were available to be issued.

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

2. FAIR VALUE MEASUREMENTS

Assets and (liabilities) measured at fair value as of November 30 consisted of the following:

	2022			
	Level 1	Level 2	Level 3	Total
Investments				
Fixed Income				
Corporate bonds	\$ -	\$ 633,146	\$ -	\$ 633,146
Government agency bonds	-	875,203	-	875,203
Mutual funds				
Fixed Income	2,659,036	-	-	2,659,036
Equity	9,295,698	-	-	9,295,698
Common stock				
Domestic	1,352,562	-	-	1,352,562
Total investments	\$ 13,307,296	\$ 1,508,349	\$ -	\$ 14,815,645
Derivative instruments				
Interest rate swap liability	\$ -	\$ (399,201)	\$ -	\$ (399,201)
	2021			
	Level 1	Level 2	Level 3	Total
Investments				
Fixed Income				
Corporate bonds	\$ -	\$ 861,586	\$ -	\$ 861,586
Government agency bonds	-	961,838	-	961,838
Mutual funds				
Fixed Income	1,481,523	-	-	1,481,523
Equity	9,862,801	-	-	9,862,801
Common stock				
Domestic	701,983	-	-	701,983
Total investments	\$ 12,046,307	\$ 1,823,424	\$ -	\$ 13,869,731
Derivative instruments				
Interest rate swap liability	\$ -	\$ (426,856)	\$ -	\$ (426,856)

Current guidance defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Federation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date. The fair values of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized security exchanges.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Mutual Funds and Common Stock

The fair values of mutual funds and common stock investments are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Fixed Income Investments

Fixed income investments are valued based upon recent bid prices or the average of recent bid and asked prices when available (Level 2 inputs) and, if not available, they are valued through matrix pricing models developed by sources considered by management to be reliable. Matrix pricing, which is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Interest Rate Swap

The Federation has entered into an interest rate swap agreement to manage its interest rate risk. The fair value of the Federation's interest rate swap was estimated utilizing Level 2 inputs. The Federation obtained the fair value from a financial institution who utilizes internal models with observable market data inputs to estimate the value of this instrument (Level 2 inputs).

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at November 30:

	2022	2021
Building	\$ 9,138,865	\$ 9,167,152
Computer equipment	2,587,189	2,611,519
Furniture and fixtures	1,197,510	1,272,785
Office equipment	394,562	550,641
Leasehold improvements	31,950	31,950
Construction in progress	213,304	-
	<u>13,563,380</u>	<u>13,634,047</u>
Less accumulated depreciation	<u>(4,467,121)</u>	<u>(3,835,168)</u>
	<u>\$ 9,096,259</u>	<u>\$ 9,798,879</u>

Depreciation expense was \$631,952 and \$746,219 for the years ended November 30, 2022 and 2021, respectively.

4. LINES OF CREDIT

In 2017, the Federation entered into a \$1,000,000 revolving line of credit. The line of credit bears interest at the Secured Overnight Financing Rate (SOFR) plus 2.1% (3.48% at November 30, 2022), is secured by investments, and matures in September 2023. There were no amounts outstanding on the line of credit at November 30, 2022 and 2021, respectively.

In connection with the bond financing agreement discussed in Note 6, the Federation also entered into a non-revolving convertible line of credit in December 2017. The Federation could borrow amounts from the line of credit not to exceed an aggregate amount outstanding of \$2,600,000 until the conversion date of August 1, 2019. There were no outstanding borrowings at November 30, 2021. The non-revolving convertible line of credit was terminated on March 29, 2022.

In connection with the above lines of credit, the Federation has to comply with certain financial and non-financial covenants. The Federation believes it was in compliance with all of its financial and non-financial covenants at November 30, 2022.

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

5. PAYCHECK PROTECTION LOAN PROGRAM

On April 15, 2020, the Federation obtained a Paycheck Protection Program (PPP) Loan under a program offered by the United States Small Business Administration (SBA) in the amount of \$1,927,200. The Federation applied for forgiveness and received notice from the SBA that the loan was forgiven in full on June 10, 2021. No interest was paid on the loan. The Federation accounted for the PPP Loan under the debt model prescribed under ASC 470. At the point forgiveness was granted, this amount was reclassified from a liability on the Statement of Financial Position to revenue on the Statement of Activities and Changes in Net Assets.

6. CONTRACT LIABILITY (DEFERRED INCOME)

In 2019, the Federation outsourced laboratory testing operations to the University of Kentucky in exchange for their laboratory equipment and credits of \$971,000 toward future testing through November 2024. The carrying value of the equipment was \$326,711, resulting a deferred gain of \$644,229 which will be recognized over the period the credits are provided. The transaction was accounted for as an exchange transaction.

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 November 30, 2022 and 2021:

	2022	2021
Deferred revenue, beginning of year	\$ 7,278,902	\$ 6,864,491
Revenue recognized during the year	(5,923,413)	(5,368,160)
Increase due to cash received during the year	5,713,117	5,782,571
Deferred revenue, end of year	<u>\$ 7,068,606</u>	<u>\$ 7,278,902</u>

Deferred income consists of the following at November 30, 2022 and 2021:

	2022	2021
Prepaid annual memberships	\$ 4,037,695	\$ 3,920,158
Prepaid lifetime memberships	1,781,639	1,938,101
Other prepayments and advanced registrations	1,249,272	1,420,643
	<u>\$ 7,068,606</u>	<u>\$ 7,278,902</u>

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

7. BONDS PAYABLE

In December 2017, the Federation entered into a tax-exempt bond financing agreement for \$6.4 million. The bonds bear interest at 70% of the sum of the Daily LIBOR Rate plus 1.45% (3.89% and 2.54% at November 30, 2022 and 2021, respectively). The bonds are payable in monthly installments beginning in August 2019 and mature in August 2044. The bonds are subject to a mandatory tender for purchase by the Federation on September 1, 2024, and each fifth September 1 thereafter, unless waived by the holder. The Federation began making interest only payments in February 2018. The bonds are secured by the office building constructed with the bond proceeds, which had a net book value of \$8,065,035 and \$8,403,740 as of November 30, 2022 and 2021, respectively. Amounts outstanding under the bonds at November 30 are as follows:

	2022	2021
Bond payable	\$ 5,815,108	\$ 6,002,011
Less current portion of bonds payable	(192,116)	(181,390)
Less deferred financing fees	(82,854)	(86,664)
Long term portion of bonds payable	<u>\$ 5,540,138</u>	<u>\$ 5,733,958</u>

Future maturities due on the bonds payable are as follows:

Fiscal years ending:	
2023	\$ 192,116
2024	197,531
2025	204,053
2026	209,469
2027	217,179
Thereafter	4,794,760
	<u>\$ 5,815,108</u>

In connection with the bonds payable, the Federation has to comply with certain financial and non-financial covenants. The Federation believes it was in compliance with all of its financial and non-financial covenants at November 30, 2022.

On December 15, 2022, the Federation entered into Amendment No. 1 to the Bond Purchase Agreement. Under the terms of the amendment to cover the anticipated change from LIBOR to SOFR, on the Benchmark Replacement Date the interest rate will change from LIBOR plus the 1.45% adjustment disclosed above to the sum of SOFR and the related Benchmark Replacement Adjustment as defined in the amendment.

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

8. INTEREST RATE SWAP

The Federation entered into an interest rate swap to receive market rate interest and pay fixed rate interest to a major financial institution to lock in the Federation's interest rate paid on the bonds payable. The variable interest on the bonds will be hedged by the interest rate swap. Net interest payments will be effectively fixed at the interest rate of 2.98%. The interest rate swap has a total notional amount of \$6,400,000. Under this agreement, the Federation will pay a fixed interest of 1.965% and receives a rate based on the LIBOR index multiplied by 0.7. The agreement terminates in August 2029.

The Federation intends to hold the interest rate swap until the termination date. The interest rate swap is considered a derivative and is recognized on the statement of financial position at fair value. Changes in the fair value of the derivative are reported separately in the revenue, gains, and other support section on the statement of activities and changes in net assets.

The fair value of the swap agreement is reflected in the statement of financial position as a long-term liability of \$399,201 and \$426,856 at November 30, 2022 and 2021, respectively.

On December 15, 2022, the Federation entered into an amendment to the interest rate swap agreement in anticipation of the change from LIBOR to SOFR. Under the terms of the new agreement the Federation will pay a fixed interest of 1.965% and receives a rate based on the Fallback Rate SOFR plus the most recently published Fallback Spread Adjustment as defined in the agreement. The agreement terminates in August 2029.

9. OPERATING LEASES

The Federation leases office space in Columbus, Ohio with monthly rent ranging from approximately \$3,200 to \$3,400 for up to 5 years expiring in 2025. The lease has incremental increases in rent occurring every year as set in the agreement. The Federation also leases several pieces of office equipment in Lexington, Kentucky and Columbus, Ohio with monthly rent ranging from \$754 to \$2,991 for up to 60 months with expiration dates in 2023 and 2027. In September 2019, the Federation entered into a ground lease with the Kentucky Horse Park with monthly rent of \$1,000 for the first five years. Rent increases at 1% each year thereafter until expiration of the 80 year lease.

Future minimum rental obligations under non-cancelable operating leases as of November 30, 2022 are as follows:

	Office Space	Equipment	Ground	Total
Year ending November 30,				
2023	\$ 40,136	\$ 40,459	\$ 12,000	\$ 92,595
2024	40,939	9,044	12,030	62,013
2025	20,672	9,044	12,150	41,866
2026	-	9,044	12,272	21,316
2027	-	3,015	12,395	15,410
Thereafter	-	-	1,304,417	1,304,417
	<u>\$ 101,747</u>	<u>\$ 70,606</u>	<u>\$ 1,365,264</u>	<u>\$ 1,537,617</u>

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

Rent expense, excluding real estate taxes, insurance, and repair costs, for the years ended November 30, 2022 and 2021 was \$96,908 and \$126,699, respectively.

10. NET ASSETS WITH DONOR RESTRICTIONS AND NET ASSETS RELEASED FROM RESTRICTIONS

Net assets with donor restrictions of \$560,774 and \$548,770 for the years ended November 30, 2022 and 2021, respectively, represent funds restricted by donors primarily for the Federation's Disaster Relief Program and International team training.

Net assets of \$4,726,749 and \$5,273,710 for the years ended November 30, 2022 and 2021, respectively, have been released from net assets with donor restrictions as a result of satisfying restrictions imposed by the donor or grantor.

11. RETIREMENT PLAN

The Federation has a defined contribution 401(k) plan, which covers all employees who meet certain eligibility requirements and elect to participate. The Federation considers a discretionary match of its employee 401(k) contributions on an annual basis. In 2022 and 2021, the Federation contributed thirty percent (30%) of amounts contributed by its employees to the plan, up to a maximum 10% of employee pay. The employer match for the years ended November 30, 2022 and 2021 was \$213,876 and \$116,756, respectively.

12. COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES

The Federation is involved in certain litigation and regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Federation's financial position or future results from operations.

13. RELATED PARTY TRANSACTIONS

The United States Equestrian Team Foundation (USET Foundation) provides office space at no cost to the Federation and the fair value of the rent for the years ended November 30, 2022 and 2021 was \$160,000. The USET Foundation is an independently governed 501(c)(3) entity and a member of the Federation. In 2022 and 2021, the USET Foundation granted \$3,000,000 and \$4,000,000, respectively, to fund the International High-Performance Program.

In 2022, expenses of \$272,139 were paid to members of the Board of Directors and staff for event support, officer stipends, national clinic expenses, travel reimbursement and other out of pocket expenses.

UNITED STATES EQUESTRIAN FEDERATION, INC.

NOTES TO THE FINANCIAL STATEMENTS NOVEMBER 30, 2022 AND 2021

14. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position as of November 30, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 9,733,724	\$ 12,080,110
Investments	14,815,645	13,869,731
Receivables, net of allowance	<u>1,758,135</u>	<u>539,547</u>
	<u>\$ 26,307,504</u>	<u>\$ 26,489,388</u>

As part of its liquidity management plan, the Federation structures financial assets to be available as the general expenditures, liabilities and other obligations become due. The Federation has donor restricted net assets of \$560,774 and \$548,770 at November 30, 2022 and 2021, respectively, limited to specified purposes that management asserts will qualify as general expenditures within one year in the normal course of operations. Therefore, these purpose restricted assets are considered available.

To help manage unanticipated liquidity needs, a committed line of credit of \$1,000,000 can be drawn upon (see Note 4).