

UNITED STATES DRESSAGE FEDERATION, INC.  
LEXINGTON, KENTUCKY

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AUDIT OF FINANCIAL STATEMENTS  
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010

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## INDEPENDENT AUDITOR'S REPORT

Board of Governors  
C/O Audit Committee Chair  
United States Dressage Federation, Inc.  
Lexington, Kentucky

We have audited the accompanying statements of financial position of the United States Dressage Federation, Inc. (a nonprofit corporation) as of March 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Federation's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Dressage Federation, Inc. as of March 31, 2011 and 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Fister, Williams & Oberlander, PLLC*

August 15, 2011

UNITED STATES DRESSAGE FEDERATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>A S S E T S</u>		
Current assets:		
Cash and cash equivalents	\$ 1,269,858	\$ 835,328
Investments	2,622,150	2,555,089
Accounts receivable, net	36,989	80,514
Unconditional promises to give, net	319,063	503,745
Inventory	106,458	89,535
Prepaid expenses and other assets	13,689	5,296
Total current assets	<u>4,368,207</u>	<u>4,069,507</u>
Capital assets, net	<u>2,998,518</u>	<u>3,135,366</u>
Total assets	<u>\$ 7,366,725</u>	<u>\$ 7,204,873</u>
<u>L I A B I L I T I E S   A N D   N E T   A S S E T S</u>		
Current liabilities:		
Accounts payable	\$ 71,535	\$ 99,882
Notes payable		60,139
Accrued expenses	177,593	118,806
Deferred revenues	21,965	63,832
Total current liabilities	<u>271,093</u>	<u>342,659</u>
Net Assets:		
Unrestricted:		
Net investment in capital assets	2,998,518	3,075,227
Board designated	1,269,582	1,240,861
Undesignated	2,468,469	2,002,381
Total unrestricted net assets	<u>6,736,569</u>	<u>6,318,469</u>
Temporarily restricted	359,063	543,745
Total net assets	<u>7,095,632</u>	<u>6,862,214</u>
Total liabilities and net assets	<u>\$ 7,366,725</u>	<u>\$ 7,204,873</u>

UNITED STATES DRESSAGE FEDERATION, INC.  
STATEMENT OF ACTIVITIES  
For the Year Ended March 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains and other support:			
Membership dues	\$ 2,074,791	\$	\$ 2,074,791
Competition	207,975		207,975
Publications	470,905		470,905
Merchandise	157,643		157,643
Program services	420,128		420,128
Regional Championships	298,757		298,757
National Education Center		11,052	11,052
Regional revenues	245,066		245,066
Development	51,929		51,929
Marketing	16,308		16,308
Investment return	100,282		100,282
Net assets released from restrictions	195,734	(195,734)	0
Total revenues, gains and other support	<u>4,239,518</u>	<u>(184,682)</u>	<u>4,054,836</u>
Expenses:			
Program services:			
Member services	308,321		308,321
Competition	472,226		472,226
Programs and education	502,905		502,905
Marketing	800,092		800,092
Regional expenses	139,320		139,320
Depreciation and amortization	184,773		184,773
Total program expenses	<u>2,407,637</u>	<u>0</u>	<u>2,407,637</u>
Supporting services:			
General and administrative	1,245,575		1,245,575
Fundraising expense	28,886		28,886
Total expenses	<u>3,682,098</u>	<u>0</u>	<u>3,682,098</u>
Change in net assets	557,420	(184,682)	372,738
Net assets, beginning of year	<u>6,318,469</u>	<u>543,745</u>	<u>6,862,214</u>
Net assets, end of year	<u>\$ 6,875,889</u>	<u>\$ 359,063</u>	<u>\$ 7,234,952</u>

UNITED STATES DRESSAGE FEDERATION, INC.  
STATEMENT OF ACTIVITIES  
For the Year Ended March 31, 2010

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Revenues, gains and other support:			
Membership dues	\$ 1,842,554	\$	\$ 1,842,554
Competition	189,105		189,105
Publications	494,839		494,839
Merchandise	105,235		105,235
Program services	490,820		490,820
Regional Championships	295,661		295,661
National Education Center		21,848	21,848
Regional revenues	149,995		149,995
Development	85,442		85,442
Marketing	32,253		32,253
Investment return	441,390	150,579	591,969
Net assets released from restrictions	198,219	(198,219)	0
Total revenues, gains and other support	<u>4,325,513</u>	<u>(25,792)</u>	<u>4,299,721</u>
Expenses:			
Program services:			
Member services	309,378		309,378
Competition	443,859		443,859
Programs and education	531,876		531,876
Marketing	805,811		805,811
Regional expenses	160,935		160,935
Depreciation and amortization	189,531		189,531
Total program expenses	<u>2,441,390</u>	<u>0</u>	<u>2,441,390</u>
Supporting services:			
General and administrative	1,154,018		1,154,018
Fundraising expense	33,281		33,281
Total expenses	<u>3,628,689</u>	<u>0</u>	<u>3,628,689</u>
Change in net assets	696,824	(25,792)	671,032
Net assets, beginning of year	<u>5,621,645</u>	<u>569,537</u>	<u>6,191,182</u>
Net assets, end of year	<u>\$ 6,318,469</u>	<u>\$ 543,745</u>	<u>\$ 6,862,214</u>

**UNITED STATES DRESSAGE FEDERATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended March 31, 2011

	<u>Program Services</u>					<u>Supporting Services</u>		
	<u>Member Services</u>	<u>Competition</u>	<u>Programs and Education</u>	<u>Marketing</u>	<u>Total</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Compensation and related expenses:								
Compensation	\$ 146,105	\$ 213,000	\$ 188,628	\$ 219,571	\$ 767,304	\$ 608,643	\$ 12,480	\$ 1,388,427
Benefits	13,997	31,196	37,534	45,979	128,706	117,290	2,209	248,205
Payroll taxes	12,386	17,426	15,363	17,596	62,771	46,532	972	110,275
	<u>172,488</u>	<u>261,622</u>	<u>241,525</u>	<u>283,146</u>	<u>958,781</u>	<u>772,465</u>	<u>15,661</u>	<u>1,746,907</u>
Contract labor				64,572	64,572	37,989		102,561
Printing, postage and supplies	24,094	12,458	11,505	317,107	365,164	10,652	317	376,133
Travel		6,236	19,219	2,007	27,462	17,330	235	45,027
Prizes and awards	1,102	172,747	6,411	149	180,409			180,409
Banking and investment fees				7,958	7,958	115,016		122,974
Advertising and sponsors	110,417	3,882	52,563	15,188	182,050	26,791	1,005	209,846
Programs and events		865	139,208	28,099	168,172	26,456	604	195,232
Merchandising				77,003	77,003			77,003
Grants		13,500			13,500			13,500
Facility expenses			25,378		25,378	81,130		106,508
Office expenses	220	916	7,096	4,863	13,095	76,792	11,064	100,951
Legal and professional					0	80,954		80,954
Regional expenses					139,320			139,320
Depreciation and amortization					184,773			184,773
	<u>\$ 308,321</u>	<u>\$ 472,226</u>	<u>\$ 502,905</u>	<u>\$ 800,092</u>	<u>\$ 2,407,637</u>	<u>\$ 1,245,575</u>	<u>\$ 28,886</u>	<u>\$ 3,682,098</u>

The accompanying notes are an integral part of the financial statements.

**UNITED STATES DRESSAGE FEDERATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended March 31, 2010**

	<u>Program Services</u>					<u>Supporting Services</u>		
	<u>Member Services</u>	<u>Competition</u>	<u>Programs and Education</u>	<u>Marketing</u>	<u>Total</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Compensation and related expenses:								
Compensation	\$ 145,994	\$ 207,253	\$ 175,876	\$ 207,869	\$ 736,992	\$ 574,721	\$ 20,385	\$ 1,332,098
Benefits	12,883	31,056	35,947	42,138	122,024	106,499	3,549	232,072
Payroll taxes	12,012	16,897	14,262	16,716	59,887	45,554	1,634	107,075
	<u>170,889</u>	<u>255,206</u>	<u>226,085</u>	<u>266,723</u>	<u>918,903</u>	<u>726,774</u>	<u>25,568</u>	<u>1,671,245</u>
Contract labor			24,900	64,572	89,472	41,085		130,557
Printing, postage and supplies	26,272	12,445	16,976	370,877	426,570	13,088	6,095	445,753
Travel		5,991	15,453	4,690	26,134	24,957		51,091
Prizes and awards	949	153,069	2,836	149	157,003			157,003
Banking and investment fees				3,704	3,704	86,686		90,390
Advertising and sponsors	110,703	1,880	44,845	2,425	159,853	29,108	1,607	190,568
Programs and events		250	178,819		179,069	29,414		208,483
Merchandising			5,932	88,326	94,258			94,258
Grants		13,726	203		13,929			13,929
Facility expenses			2,275		2,275	68,546		70,821
Office expenses	565	1,292	13,552	4,345	19,754	118,565	11	138,330
Legal and professional					0	15,795		15,795
Regional expenses					160,935			160,935
Depreciation and amortization					189,531			189,531
	<u>\$ 309,378</u>	<u>\$ 443,859</u>	<u>\$ 531,876</u>	<u>\$ 805,811</u>	<u>\$ 2,441,390</u>	<u>\$ 1,154,018</u>	<u>\$ 33,281</u>	<u>\$ 3,628,689</u>

UNITED STATES DRESSAGE FEDERATION, INC.  
STATEMENTS OF CASH FLOWS  
For the Years Ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 372,738	\$ 671,032
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	184,773	189,531
Bad debts	9,387	29,596
Realized gains on sales of investments	(2,551)	(100,611)
Unrealized gains on investments	(26,707)	(416,886)
Change in operating assets and liabilities:		
Accounts receivable	43,525	(19,652)
Unconditional promises to give	175,295	(1,968)
Inventory	(16,953)	41,690
Prepaid expenses and other assets	(8,393)	1,572
Accounts payable	(28,347)	85,354
Accrued expenses	58,787	50,701
Deferred revenues	41,867	(46,840)
Net cash provided by operating activities	<u>803,421</u>	<u>483,519</u>
Cash flows from investing activities:		
Acquisition of capital assets	(47,924)	(105,349)
Donated art		(1,300)
Purchases of investments	(361,439)	(100,611)
Proceeds from sale of investments	100,611	310,576
Net cash provided by investing activities	<u>(308,752)</u>	<u>103,316</u>
Cash flows from financing activities:		
Principal payments on note payable	<u>(60,139)</u>	<u>(224,325)</u>
Net increase in cash and cash equivalents	434,530	362,510
Cash and cash equivalents, beginning of year	<u>835,328</u>	<u>472,818</u>
Cash and cash equivalents, end of year	<u>\$ 1,269,858</u>	<u>\$ 835,328</u>
Supplemental disclosure of cash flow activity:		
Interest paid	<u>\$ 2,155</u>	<u>\$ 2,693</u>

UNITED STATES DRESSAGE FEDERATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
March 31, 2011 and 2010

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NOTE 1 - NATURE OF ACTIVITIES

The United States Dressage Federation, Inc., (the “USDF”) is a non-profit corporation, organized under the laws of the State of Nebraska and is now maintaining an office in Lexington, Kentucky. The purpose of the USDF is to promote and encourage a high standard of accomplishment in dressage throughout the United States primarily through educational programs. In furtherance of this goal the USDF will work closely with local, regional and international organizations. The USDF Mission Statement is dedicated to education, the recognition of achievement, and promotion of dressage.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the USDF is presented to assist in understanding the USDF’s operations and financial position. The financial statements and notes are representations of the USDF’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.

Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation:

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 “*Not-for-Profit Entities Presentation of Financial Statements.*” Under FASB ASC 958, the USDF reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

UNITED STATES DRESSAGE FEDERATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
March 31, 2011 and 2010

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions:

The USDF has adopted FASB ASC 958, *“Not-for-Profit Entities Receivables.”* In accordance with FASB ASC 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All contributions are recognized when the donor makes an unconditional promise to give. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If the restriction expires in the same accounting period as the contributions is received, the revenue is reported as unrestricted.

Fair Value of Measurements:

The USDF has adopted the provisions of FASB ASC 820 *“Fair Value Measurements and Disclosures.”* FASB ASC 820 establishes a single definition of fair value and a framework for measuring fair value. FASB ASC 820 also expands disclosures about fair value measurements and applies whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the USDF considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments:

USDF accounts for investments under FASB ASC 958, *“Not-for-Profit Entities Investments - Debt and Equity Securities.”* Under FASB ASC, investments in equity securities with readily determinable fair values, mutual funds, and all investments in debt securities are measured at market value in the statement of financial position. The fair values for equity securities, mutual funds, and debt securities are based on quoted market prices. Gains and losses on dispositions of investments are accounted for on a specific identification basis. Net realized and unrealized gains and losses are included in the statement of activities.

UNITED STATES DRESSAGE FEDERATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
March 31, 2011 and 2010

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets:

Capital assets that are purchased for over \$500 are recorded at cost and depreciated over their estimated useful lives using the straight-line method.

Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the USDF reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The USDF reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Impairment of Long-Lived Assets:

The USDF evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Income Tax Status:

USDF is a not-for-profit organization that is exempt from both federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. USDF has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b).

Functional Allocation of Expenses:

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

UNITED STATES DRESSAGE FEDERATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
March 31, 2011 and 2010

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NOTE 3 - CONCENTRATIONS OF CREDIT RISK

USDF's cash deposits are maintained at a financial institution located in central Kentucky. As of March 31, 2011, cash balances maintained in non-interest bearing transaction accounts are insured under the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program. This program provides unlimited insurance coverage at participating FDIC institutions and expires on December 31, 2012. Cash balances maintained in other deposit type accounts are insured up to \$250,000. As of March 31, 2011, the USDF had no uninsured balances.

USDF also maintain certain cash balances in money market funds with a regional investment brokerage firm located in Lincoln, NE. The money market funds are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000. USDF had no uninsured balances at March 31, 2011.

NOTE 4 - UNCONDITIONAL PROMISES TO GIVE

Pledges received from donors are reported as unconditional promises to give and consist of the following at March 31:

	<u>2011</u>	<u>2010</u>
National Education Center	\$ 168,764	\$ 353,446
National Education Endowment Fund	<u>150,299</u>	<u>150,299</u>
Total unconditional promises to give	<u>\$ 319,063</u>	<u>\$ 503,745</u>

Unconditional promises to give at March 31, 2011 and 2010 include an individual pledge representing 34% and 24%, respectively, of the gross outstanding promises to give. In addition, approximately \$140,000 at March 31, 2011, was due from 4 individuals or corporations and approximately \$295,000 March 31, 2010, was due from 5 individuals or corporations.

In addition, USDF has been informed of intentions to give in the form of possible future bequests, currently of indeterminable value, that have not been reflected in the accompanying financial statements because they are not unconditional promises.

UNITED STATES DRESSAGE FEDERATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
March 31, 2011 and 2010

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NOTE 4 - UNCONDITIONAL PROMISES TO GIVE (CONTINUED)

Promises to give, net of discount to present value (at a rate of 4.5%) and allowance for doubtful accounts, are due to be collected as follows at March 31:

	<u>2011</u>	<u>2010</u>
Due in less than one year	\$ 443,075	\$ 300,000
Due in one to five years		335,215
Total unconditional promises to give	<u>443,075</u>	<u>635,215</u>
Less discounts to net present value		<u>(18,510)</u>
	<u>443,075</u>	<u>616,705</u>
Less allowance for doubtful accounts	<u>(124,012)</u>	<u>(112,960)</u>
Net unconditional promises to give	<u>\$ 319,063</u>	<u>\$ 503,745</u>

NOTE 5 - INVESTMENTS

Investments are stated at fair value and consist of the following at March 31:

	<u>2011</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash equivalents	\$ 73,421	\$ 73,421	\$ 0
Equities	7,375	7,375	0
Mutual funds	2,363,385	2,481,676	118,291
Preferred stock	<u>55,943</u>	<u>59,678</u>	<u>3,735</u>
Total investments	<u>\$ 2,500,124</u>	<u>\$ 2,622,150</u>	<u>\$ 122,026</u>

UNITED STATES DRESSAGE FEDERATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
March 31, 2011 and 2010

NOTE 5 - INVESTMENTS (CONTINUED)

	2010		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash equivalents	\$ 73,237	\$ 73,237	\$ 0
Equities	6,686	6,686	0
Mutual funds	2,393,241	2,423,856	30,615
Preferred stock	42,054	51,310	9,256
Total investments	\$ 2,515,218	\$ 2,555,089	\$ 39,871

USDF's investment portfolio is exposed to various risks, such as interest rate, market risk, and credit risk. Because of the level of risk associated with such investments, changes in their values will occur, and such changes could materially affect the amounts reported in USDF's financial statements.

Fair Value Measurements:

FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, maximizes the use observable inputs, and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The three levels of fair value hierarchy are as follows:

*Level 1.* Unadjusted quoted prices in active markets for identical assets and liabilities.

*Level 2.* Observable inputs other than those included in level 1, such as quoted market prices for similar assets or liabilities in active markets or quoted market prices for identical assets or liabilities in inactive markets.

*Level 3.* Unobservable inputs reflecting management's own assumptions about inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment.

UNITED STATES DRESSAGE FEDERATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
March 31, 2011 and 2010

NOTE 5 - INVESTMENTS (CONTINUED)

The following table summarizes financial assets and liabilities carried at fair value measured on a recurring basis as of March 31:

	2011		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash equivalents	\$ 73,421	\$	\$ 73,421
Equities	7,375		7,375
Mutual funds	2,481,676		2,481,676
Preferred stock	_____	59,678	59,678
Total investments	\$ 2,562,472	\$ 59,678	\$ 2,622,150
	2010		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash equivalents	\$ 73,237	\$	\$ 73,237
Equities	6,686		6,686
Mutual funds	2,423,856		2,423,856
Preferred stock	_____	51,310	51,310
Total investments	\$ 2,503,779	\$ 51,310	\$ 2,555,089

The following table presents a summary of investment returns for the years ended March 31:

	2011		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 71,024	\$	\$ 71,024
Realized gains	2,551		2,551
Unrealized gains	26,707	_____	26,707
Total investment return	\$ 100,282	\$ 0	\$ 100,282

UNITED STATES DRESSAGE FEDERATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
March 31, 2011 and 2010

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NOTE 5 - INVESTMENTS (CONTINUED)

	2010		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 67,344	\$	\$ 67,344
Realized gains	100,611		100,611
Unrealized gains	273,435	150,579	424,014
Total investment return	\$ 441,390	\$ 150,579	\$ 591,969

NOTE 6 - DESIGNATED ENDOWMENT FUNDS

USDF's endowment includes both donor-restricted funds and funds designated by the Board of Governors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Governors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Governors of USDF has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, USDF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as board designated unrestricted net assets until those amounts are appropriated for expenditure by USDF in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, USDF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of USDF, and (7) USDF's investment policies.

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NOTE 6 - DESIGNATED ENDOWMENT FUNDS (CONTINUED)

USDF is currently in the process of establishing a strategy for investment return and risk parameters as well as a spending policy.

Endowment net assets composition by type of fund is as follows as of March 31:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$	\$ 40,000	\$	\$ 40,000
Board-designated endowment funds	<u>367,993</u>	<u>                    </u>	<u>                    </u>	<u>367,993</u>
 Total funds	 \$ <u>367,993</u>	 \$ <u>40,000</u>	 \$ <u>          -</u>	 \$ <u>407,993</u>
	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$	\$ 40,000	\$	\$ 40,000
Board-designated endowment funds	<u>324,593</u>	<u>                    </u>	<u>                    </u>	<u>324,593</u>
 Total funds	 \$ <u>324,593</u>	 \$ <u>40,000</u>	 \$ <u>          -</u>	 \$ <u>364,593</u>

Changes in endowment net assets are as follows as of March 31:

	2011			Total
	Unrestricted	Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 324,593	\$ 40,000	\$	\$ 364,593
Contributions	<u>32,627</u>	<u>                    </u>	<u>                    </u>	<u>32,627</u>
Investment income	<u>10,773</u>	<u>                    </u>	<u>                    </u>	<u>10,773</u>
 Endowment net assets, end of year	 \$ <u>367,993</u>	 \$ <u>40,000</u>	 \$ <u>          -</u>	 \$ <u>407,993</u>

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NOTE 6 - DESIGNATED ENDOWMENT FUNDS (CONTINUED)

	<u>2010</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ 212,633	\$ 40,000	\$ -	\$ 252,633
Contributions	103,677			103,677
Investment income	8,283			8,283
Endowment net assets, end of year	<u>\$ 324,593</u>	<u>\$ 40,000</u>	<u>\$ -</u>	<u>\$ 364,593</u>

NOTE 7 - CAPITAL ASSETS

Capital assets consist of the following at March 31:

	<u>2011</u>	<u>2010</u>
Building	\$ 2,869,777	\$ 2,869,778
Furniture and equipment	906,617	897,942
Database	203,705	203,705
Organization relocation costs	263,563	263,563
Donated art	93,558	93,558
Construction in progress	10,930	120,000
Bronze Statue	148,320	
	<u>4,496,470</u>	<u>4,448,546</u>
Less accumulated amortization	(425,765)	(407,932)
Less accumulated depreciation	<u>(1,072,189)</u>	<u>(905,248)</u>
Capital assets, net	<u>\$ 2,998,516</u>	<u>\$ 3,135,366</u>

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NOTE 8 - NOTES PAYABLE

Notes payable consisted of a secured mortgage payable to a local financial institution. Interest was fixed at 1.5% and required monthly principal and interest payments. The mortgage was secured by a certain saving account, building and furniture and equipment. The outstanding principal balance at March 31, 2010 totaled \$60,139. The mortgage was paid in full during the year ended March 31, 2011.

NOTE 9 - LINE OF CREDIT

USDF has a \$250,000 line of credit available, none of which was outstanding at March 31, 2011, bearing interest at 3.25%. When drawn, the line of credit is secured by organizations assets. The line of credit has no specific maturity date.

NOTE 10 - BOARD DESIGNATED NET ASSETS

Board designated net assets have been restricted by the Board of Governors for the following purposes at March 31:

	<u>2011</u>	<u>2010</u>
National championship fund	\$ 614,599	\$ 630,308
Regional funds	192,944	198,070
Ruth Arvanett fund	94,046	87,890
National Education Endowment fund	<u>367,993</u>	<u>324,593</u>
Total board designated net assets	<u>\$ 1,269,582</u>	<u>\$ 1,240,861</u>

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NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at March 31:

	<u>2011</u>	<u>2010</u>
National Education Endowment fund	\$ 40,000	\$ 40,000
Unconditional promises to give outstanding:		
National Education Center	168,764	353,446
National Education Endowment fund	<u>150,299</u>	<u>150,299</u>
Total temporarily restricted net assets	<u>\$ 359,063</u>	<u>\$ 543,745</u>

NOTE 12 - PENSION PLAN

USDF maintains a 401(k) plan (the Plan) for its employees. Eligibility requires that participants be at least 21 years of age and have one year of service. Employees may elect to withhold up to 60% of their compensation and the USDF will make matching contributions equal to 100% of the participants elective deferral that do not exceed 3% of the participant's compensation, plus 50% of the amount of the participant elective deferral that exceed 3% of the participant's compensation but do not exceed 5% of the participant's compensation. Contributions to the Plan for the year ending March 31, 2011 and 2010 were \$45,868 and \$42,979, respectively.

NOTE 13 - INCOME TAXES

USDF adopted the provisions of FASB ASC 740, "*Accounting for Uncertainty in Income Taxes*". FASB ASC 740 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized. FASB 740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FASB ASC 740, USDF did not recognize a liability for unrecognized tax benefits. USDF's 2009 and 2008 tax years remain subject to examination by the IRS.

The USDF receives advertising revenue and list rental revenue, which, according to the IRS, is unrelated business income subject to income tax. Currently there is no tax due on the transactions relating to advertising or list rental due to application of net operating loss carry forwards. Remaining loss carry forwards at March 31, 2011 are recorded in excess of \$500,000.

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NOTE 14 - CONTINGENCIES

During the normal course of business USDF may become involved in legal proceedings. USDF believes it has defenses for all such claims, believes the claims are substantially without merit, and is vigorously defending the actions. In the opinion of management, the final disposition of these matters will not have a material effect on USDF's financial position.

NOTE 15 - SUBSEQUENT EVENTS

USDF has evaluated subsequent events through August 15, 2011 the date which the financial statements were available to be issued.