HORSEPOWER, INC.

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

HORSEPOWER, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Horsepower, Inc.
Colfax, North Carolina

I have audited the accompanying statement of financial position of Horsepower, Inc. (a nonprofit organization) as of December 31, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position of Horsepower, Inc. as of December 31, 2009, 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.

Donald S. Kinney, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

Winston-Salem, North Carolina
July 9, 2010

HORSEPOWER, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

CURRENT ASSETS:		
Cash	$	85,467
Prepaid insurance		5,775
Other prepaid expenses		6,115
Sales tax receivable		248
Total current assets		97,605
PROPERTY AND EQUIPMENT:		
Buildings		57,220
Equipment		68,836
Horses		28,400
Riding arena		92,108
		246,564
Less accumulated depreciation		105,807
Property and equipment, net		140,757
TOTAL ASSETS	$	238,362
UNRESTRICTED NET ASSETS	$	238,362

See accompanying notes and auditor's report.

HORSEPOWER, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

CONTRIBUTIONS AND REVENUE:		
Public support	$	159,382
Fundraising		71,055
Donations in-kind		38,000
Riding lessons		38,117
Boarding fees		9,763
Interest income		1,382
Total contributions and revenue		317,699
PROGRAM EXPENSES:		
Contract labor		1,138
Depreciation		20,054
Education		5,142
Farriers		5,183
Feed and hay		19,778
Horse supplies		4,365
Insurance - general		11,037
Insurance - group health		18,047
Loss on abandoned assets		1,632
Memberships		1,696
Office supplies		3,607
Pasture rent		3,700
Postage		1,620
Professional services		3,100
Promotional expenses		7,165
Rent		30,000
Repairs and maintenance		2,692
Salaries		159,747
Service charges		446
Supplies		1,434
Taxes		12,339
Telephone		4,857
Travel		6,094
Utilities		3,974
Veterinarians		4,565
Total program expenses		333,412
DECREASE IN UNRESTRICTED NET ASSETS		(15,713)
NET ASSETS AT BEGINNING OF YEAR		254,075
NET ASSETS AT END OF YEAR	$	238,362

See accompanying notes and auditor's report.

HORSEPOWER, INC.

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009

CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Decrease in unrestricted net assets	$	(15,713)
Adjustments to reconcile decrease in unrestricted net assets to cash from operating activities:		
Depreciation		20,054
Decrease in prepaid expenses		5,097
Decrease in sales tax receivable		1,933
Loss on abandoned assets		1,632
Net cash from operating activities		13,003
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Purchase of equipment		(15,226)
NET DECREASE IN CASH		(2,223)
CASH AT BEGINNING OF YEAR		87,690
CASH AT END OF YEAR	$	85,467

See accompanying notes and auditor's report.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

This summary of significant accounting policies of Horsepower, Inc. (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Activities. Horsepower, Inc. is a North Carolina nonprofit organization formed on February 20, 1995. The Organization's mission is to promote and enhance the welfare of individuals with disabilities by providing a program of therapeutic, educational and recreational value, and further, to empower individuals who are mentally, physically, emotionally and/or socially challenged through the use of horses, while providing therapeutic benefits in a safe and controlled atmosphere. The Organization is supported through public contributions, foundation and corporate grants and investment income.

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

Basis of Presentation. The Organization is required to report 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.

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

Property and Equipment. Acquisitions of property and equipment in excess of $1,000 are capitalized. Equipment, the riding arena and purchased horses are stated at cost. Donated horses and equipment are recorded at their estimated fair value at the date of donation. When property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income. Depreciation is provided utilizing the declining balance method for equipment and the straight-line method for other assets over the estimated useful lives of the respective assets as follows:

Buildings	10 - 40 years
Equipment	3 - 7 years
Horses	3 years
Riding arena	7 - 25 years

Maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

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

Revenue Recognition. All contributions are considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets.

Grant Recognition. Grant revenue is recorded when received. Grants are sometimes received and recorded prior to grant related expenses being incurred.

Donated Services. The Organization receives a significant amount of donated services from unpaid volunteers who provide various services. No amounts for these services have been recognized in the statement of activities because the criteria for recognition have not beensatified.

Income Tax Status. The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization other than a private foundation under Section 509(a)(2). Contributions to the Organization qualify for the charitable contribution deduction under Section 170(b)(1)(A).

NOTE 2: DONATIONS IN-KIND.

The Organization does not pay rent on the barn and thirty-six acres of pasture land it occupies. Management estimates the fair value of the rent to be $30,000. The donation is shown in the statement of financial position as donations in-kind revenue and rent expense.

Additionally, during 2009, horses with a fair value of $4,500 and equipment with a fair value of $3,500 were donated to the Organization. The donation are shown in the statement of financial position as horses and equipment and in the statement of activities as donations in-kind.

NOTE 3: FUND RAISING EXPENSE.

Total fund-raising expense for the year ended December 31, 2009, was $7,165. Fund raising expense was 3% of contributions and revenue. The ratio of expenses to amounts raised is computed using actual expenses and related contributions on an accrual basis.

NOTE 4: LEASES.

The Organization leases a small horse pasture on a month to month basis.

NOTE 5: SUBSEQUENT EVENTS.

The Organization has evaluated subsequent events through July 9, 2010, the date which the financial statements were available to be issued.

NOTE 6: FAIR VALUE MEASUREMENT.

The carrying values of the Organization's short-term items, including cash and accounts receivable, approximate fair value.