HORSEPOWER, INC.

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

HORSEPOWER, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Horsepower, Inc.

I have audited the accompanying statement of financial position of Horsepower, Inc. (a nonprofit organization) as of December 31, 2011, 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, 2011, 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
February 24, 2012

HORSEPOWER, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

CURRENT ASSETS:		
Cash	$	158,803
Contributions receivable		5,001
Sales tax receivable		169
Prepaid insurance		7,173
Other prepaid expenses		3,947
Total current assets		175,093
PROPERTY AND EQUIPMENT:		
Buildings		57,220
Riding arena		92,108
Equipment		72,251
Horses		21,300
		242,879
Less accumulated depreciation		127,551
Total property and equipment, net		115,328
TOTAL ASSETS	$	290,421
UNRESTRICTED NET ASSETS	$	290,421

See accompanying notes and auditor's report.

HORSEPOWER, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011

CONTRIBUTIONS AND REVENUE:		
Public support	$	175,606
Fundraising		70,553
Donations in-kind		31,600
Riding lessons		56,520
Pasture rentals		9,879
Boarding fees		796
Gain on sale		2,500
Interest income		322
Total contributions and revenue		347,776
PROGRAM EXPENSES:		
Contract labor		1,239
Depreciation		17,344
Education		8,975
Farrier		3,921
Feed and hay		18,189
Horse supplies		2,028
Insurance - general		11,540
Insurance - group health		16,340
Memberships		1,575
Office supplies		1,518
Pasture rent		2,450
Payroll taxes		10,261
Postage and delivery		1,333
Professional services		4,333
Promotional expenses		11,573
Rent		30,000
Repairs and maintenance		3,880
Salaries		136,959
Service charges		514
Supplies		986
Telephone		4,565
Travel		7,012
Utilities		3,338
Veterinarians		6,419
Total program expenses		306,292
INCREASE IN UNRESTRICTED NET ASSETS		41,484
NET ASSETS AT BEGINNING OF YEAR		248,937
NET ASSETS AT END OF YEAR	$	290,421

See accompanying notes and auditor's report.

HORSEPOWER, INC.

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Increase in unrestricted net assets	$	41,484
Adjustments to reconcile increase in unrestricted net assets to net cash from operating activities:		
Depreciation		17,344
Non-cash donations in kind		(31,600)
Non-cash rent expense		30,000
Increase in prepaid insurance		(259)
Decrease in:		
Contributions receivable		1,143
Sales tax receivable		783
Prepaid expenses		1,628
Net cash from operating activities		60,523
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Purchase of horses		(800)
NET INCREASE IN CASH		59,723
CASH AT BEGINNING OF YEAR		99,080
CASH AT END OF YEAR	$	158,803

SUPPLEMENTAL CASH FLOW DATA:		
Cash received from interest	$	322
Non-cash rental contribution and expense		30,000
Non-cash donation of horses		1,600

See accompanying notes and auditor's report.

HORSEPOWER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 primarily from the Triad, North Carolina area. Changes in the economy in this geographic area possibly would impact the amounts of contributions and grants received.

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 amounts in its checking and savings accounts to be cash.

Property and Equipment. Acquisitions of property and equipment in excess of $1,000 are capitalized. Property and equipment 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
Riding arena	7 - 25 years
Equipment	5 - 7 years
Horses	3 years

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

Measure of Operations. In its statement of activities, the Organization includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities.

NOTE 1: CONTINUED.

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 otherwise 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 been satisfied.

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: CONTRIBUTIONS RECEIVABLE.

Contributions receivable represents 2011 donations received in the first few days of 2012.

NOTE 3: DONATIONS IN-KIND.

In 1998 the Organization entered into a 35 year lease agreement with another nonprofit organization, whereby, the Organization does not pay rent on the barn and thirty-six acres of pasture land it occupies. Management estimates the annual fair value of the rent to be $30,000. This donation and corresponding expense is shown in the categories Donations in-kind and Rent in the statement of activities.

Additionally, during 2011, two horses with a fair value of $1,600 were donated to the Organization. This donation is shown in the category Horses in the statement of financial position and in the category Donations in-kind in the statement of activities.

NOTE 4: FUND RAISING EXPENSE.

Total fund-raising expense for the year ended December 31, 2011, was $11,573. Fund raising expense was 4.71% of contributions and revenue. The ratio of expenses to amounts raised is computed using actual expenses and related contributions on an accrual basis.

NOTE 5: LEASES.

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

NOTE 6: INCOME TAXES.

Income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. However, taxable income did not exceed the specific deduction allowed by Internal Revenue Code. Therefore, there was no tax liability at year end.

NOTE 7: FAIR VALUE MEASUREMENT.

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

NOTE 8: UNCERTAIN TAX POSITIONS.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization's federal Exempt Organization Business Income Tax Returns (Form 990T) for 2011 is subject to examination by the IRS, generally for three years after filing.

NOTE 9: SUBSEQUENT EVENTS.

In a nonmonetary dispute, the landlord prevailed in Magistrate's Court and was awarded an order to evict the Organization from the property. The Organization has not had to relocate and expects the ruling to be dismissed after it contests the December 7, 2011, adverse decision. Management has selected several alternative sights that would serve the purpose of the Organization should the order not be dismissed.

The Organization has evaluated subsequent events through February 24, 2012, the date which the financial statements were available to be issued.