HORSEPOWER, INC.

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012

HORSEPOWER, INC.

TABLE OF CONTENTS

DONALD S. KINNEY, CPA, P.C.
3732 VEST MILL ROAD
WINSTON-SALEM, NORTH CAROLINA 27103
(336) 768-8000

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Horsepower, Inc.

I have audited the accompanying financial statements of Horsepower, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Donald S. Kinney, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

Winston-Salem, North Carolina
March 1, 2013

HORSEPOWER, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012

CURRENT ASSETS:		
Cash	$	181,642
Sales tax receivable		403
Prepaid insurance		6,434
Other prepaid expenses		2,280
Total current assets		190,759
PROPERTY AND EQUIPMENT:		
Buildings		57,220
Riding arena		92,108
Equipment		72,251
Horses		20,050
		241,629
Less accumulated depreciation		137,791
Total property and equipment, net		103,838
TOTAL ASSETS	$	294,597

UNRESTRICTED NET ASSETS	$	294,597

See accompanying notes and auditor's report.

HORSEPOWER, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

CONTRIBUTIONS AND REVENUE:	
Public support	$ 123,711
Fundraising	78,122
Donations in-kind	31,450
Riding lessons	47,339
Pasture rentals	8,386
Boarding fees	591
Interest income	329
Total contributions and revenue	289,928
PROGRAM EXPENSES:	
Contract labor	1,035
Depreciation	13,240
Education	4,657
Farrier	4,210
Feed and hay	13,288
Horse supplies	1,435
Insurance - general	12,355
Insurance - group health	11,876
Memberships	2,605
Office supplies	2,318
Pasture rent	3,950
Payroll taxes	9,846
Postage and delivery	974
Professional services	7,043
Promotional expenses	10,939
Rent	30,000
Repairs and maintenance	3,972
Salaries	131,106
Service charges	369
Supplies	317
Telephone	5,591
Travel	6,912
Utilities	3,200
Veterinarians	4,514
Total program expenses	285,752
INCREASE IN UNRESTRICTED NET ASSETS	4,176
NET ASSETS AT BEGINNING OF YEAR	290,421
NET ASSETS AT END OF YEAR	$ 294,597

See accompanying notes and auditor's report.

HORSEPOWER, INC.

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Increase in unrestricted net assets	$	4,176
Adjustments to reconcile increase in unrestricted net assets to net cash from operating activities:		
Depreciation		13,240
Non-cash donations in-kind		(31,450)
Non-cash rent expense		30,000
Decrease in prepaid insurance		739
Increase in sales tax receivable		(234)
Decrease in:		
Contributions receivable		5,001
Prepaid expenses		1,667
Net cash from operating activities		23,139
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Purchase of horse		(300)
NET INCREASE IN CASH		22,839
CASH AT BEGINNING OF YEAR		158,803
CASH AT END OF YEAR	$	181,642

SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:		
Cash received from interest	$	329
Non-cash rental contribution and expense		30,000
Non-cash donation of horses		1,450

See accompanying notes and auditor's report.

HORSEPOWER, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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.

Contributed 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: 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 2012, two horses with a fair value of $1,450 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 3: FUND RAISING EXPENSE.

Total fund-raising expense for the year ended December 31, 2012, was $10,939. Fund raising expense was 3.77% 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: EMPLOYEE BENEFIT PLAN.

The Organization sponsors a salary reduction contribution plan pursuant to Section 403(b) of the Internal Revenue Code, covering substantially all employees. Under the plan, employees contribute a specified percentage of their salary, or a fixed dollar amount, to the plan. The Organization makes no contribution into the plan.

NOTE 5: LEASES.

The Organization leases an additional small horse pasture on a month to month basis. Pasture rent expense was $3,950 for the year ended December 31, 2012.

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 sales tax 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 2012 is subject to examination by the IRS, generally for three years after filing.

NOTE 9: SUBSEQUENT EVENTS.

The organization is close to resolving a year long dispute with its landlord concerning the property and facilities it uses. Action by the landlord and counter action by the Organization have been consolidated in Business Court. Since January 24, 2013, both sides have been in mediation. The Organization believes mediation will result in an amended lease and the Organization will be able to remain at its current location. However, management has selected several alternative sights that would serve the purpose of the Organization should negotiations collapse.

The Organization has evaluated subsequent events through March 1, 2013, the date which the financial statements were available to be issued.