HORSEPOWER, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

HORSEPOWER, INC. AND SUPPORTING ORGANIZATION

CONTENTS

December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Officers and Directors
Horsepower, Inc. and Supporting Organization
Colfax, North Carolina

We have audited the accompanying consolidated financial statements of Horsepower, Inc. (a non-profit organization) and its supporting organization, Horsepower Foundation, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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, we 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horsepower, Inc. and its supporting organization as of December 31, 2017 and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Consolidating Statement of Financial Position on page 11 and the Schedule of Consolidating Statement of Activities on page 12 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Apple, Kocejo & Associates, PA

Certified Public Accountants
November 9, 2018

HORSEPOWER, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of December 31, 2017

	Unrestricted	Temporarily Restricted	Total
ASSETS			
Current Assets			
Cash	$ 149 662	$ 139 258	$ 288 920
Unconditional promises to give	-	134 000	134 000
Prepaid expenses	10 655	-	10 655
Other current assets	476	-	476
Total current assets	160 793	273 258	434 051
Property and Equipment			
Land	463 847	-	463 847
Buildings	178 329	-	178 329
Riding arena	92 108	-	92 108
Equipment	79 757	-	79 757
Horses	31 800	-	31 800
Construction in progress	423 866	-	423 866
Less accumulated depreciation	(182 365)	-	(182 365)
Net property and equipment	1 087 342	-	1 087 342
Total assets	$ 1 248 135	$ 273 258	$ 1 521 393
LIABILITIES AND NET ASSETS			
Current Liabilities			
Deferred revenue	$ 6 630	$ -	$ 6 630
Current maturities of long-term debt	4 032	-	4 032
Other current liabilities	200	-	200
Total current liabilities	10 862	-	10 862
Long-term Liabilities			
Long-term debt	127 206	-	127 206
Total long-term liabilities	127 206	-	127 206
Total liabilities	138 068	-	138 068
Net Assets			
Unrestricted	1 110 067	-	1 110 067
Temporarily restricted	-	273 258	273 258
Total net assets	1 110 067	273 258	1 383 325
Total liabilities and net assets	$ 1 248 135	$ 273 258	$ 1 521 393

See notes to financial statements

HORSEPOWER, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Support and Revenue			
Contributions and grants	$ 221 511	$ 262 258	$ 483 769
Donated horses	800	-	800
Donated services	2 210	-	2 210
Lessons	104 555	-	104 555
Rentals	8 020	-	8 020
Special events	66 160	-	66 160
Less: direct benefit to donors	(7 835)	-	(7 835)
Total support and revenue	395 421	262 258	657 679
Net assets released from restrictions			
Satisfaction of time restrictions	3 000	(3 000)	-
Total support, revenue, and releases	398 421	259 258	657 679
Functional Expenses			
Program services	237 192	-	237 192
Management and general	48 113	-	48 113
Fundraising	40 575	-	40 575
Total expenses	325 880	-	325 880
Change in net assets	72 541	259 258	331 799
Net assets beginning of year	1 037 526	14 000	1 051 526
Net assets end of year	$ 1 110 067	$ 273 258	$ 1 383 325

See notes to financial statements

HORSEPOWER, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2017

		Support Services			
	Total Program Services	Management and General	Fund Raising	Total Support Services	Total Expenses
Salaries	$ 98 988	$ 26 696	$ 26 160	$ 52 856	$ 151 844
Payroll taxes	9 025	2 403	2 354	4 757	13 782
Health insurance	2 161	3 242	5 406	8 648	10 809
Total personnel-related expenses	110 174	32 341	33 920	66 261	176 435
Contract labor	2 066	2 390	1 024	3 414	5 480
Dues, memberships, and subscriptions	2 764	-	-	-	2 764
Education	2 970	-	50	50	3 020
Farrier	4 899	-	-	-	4 899
Feed and hay	21 468	-	-	-	21 468
Horse supplies	2 234	-	-	-	2 234
Insurance - general	16 960	800	409	1 209	18 169
Occupancy	4 271	801	267	1 068	5 339
Office supplies	6 946	1 302	435	1 737	8 683
Postage and delivery	605	-	1 304	1 304	1 909
Professional services	-	8 897	-	8 897	8 897
Promotional expenses	4 541	-	2 549	2 549	7 090
Rent	7 250	-	-	-	7 250
Repairs and maintenance	3 555	-	-	-	3 555
Service charges	302	200	-	200	502
Supplies	1 349	-	-	-	1 349
Telephone	4 106	410	617	1 027	5 133
Travel	5 503	972	-	972	6 475
Veterinarians	8 680	-	-	-	8 680
Interest	4 846	-	-	-	4 846
Miscellaneous	9 014	-	-	-	9 014
Total expenses before depreciation	224 503	48 113	40 575	88 688	313 191
Depreciation	12 689	-	-	-	12 689
Total	$ 237 192	$ 48 113	$ 40 575	$ 88 688	$ 325 880

See notes to financial statements

HORSEPOWER, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2017

Cash flows from operating activities:	
Increase (decrease) in net assets	$ 331 799
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:	
Depreciation	12 689
Donated horses	(800)
Donated construction in progress	(2 210)
Changes in current assets and liabilities:	
(Increase) decrease in:	
Promises to give	(122 000)
Prepaid expenses	3 842
Other current assets	(77)
Increase (decrease) in:	
Deferred revenue	6 630
Other current liabilities	(777)
Net cash provided by (used in) operating activities	229 096
Cash flows from investing activities:	
Purchase of property and equipment	(316 868)
Net cash provided by (used in) investing activities	(316 868)
Cash flows from financing activities:	
Proceeds from notes payable	131 750
Principal payments on notes payable	(512)
Net cash provided by (used in) financing activities	131 238
Increase (decrease) in cash and cash equivalents	43 466
Cash and cash equivalents, beginning of year	245 454
Cash and cash equivalents, end of year	$ 288 920
Supplemental Disclosure:	
Cash paid during the year for interest	$ 4 846

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization, Operations and Principles of Consolidation

The consolidated financial statements include the transactions of Horsepower, Inc. and Horsepower Foundation, Inc. (the organization). All significant inter-organization transactions have been eliminated in consolidation.

Horsepower, Inc.

Horsepower, Inc. is a North Carolina nonprofit organization formed in 1995, whose mission is to promote and enhance the welfare of individuals with disabilities by providing a program of therapeutic, educational and recreational value. Individuals who are mentally, physically, emotionally and/or socially challenged are empowered through the use of horses in a safe and controlled atmosphere. The organization is supported through public contributions, foundation and corporate grants, and program fees in the Triad region of North Carolina.

Horsepower Foundation, Inc. (the Foundation)

Horsepower Foundation, Inc. is a North Carolina nonprofit organization formed on July 29, 2013, whose purpose is to raise funds and assets for the benefit of Horsepower, Inc. The Board of Directors of Horsepower, Inc. appoints the Foundation's Board of Directors. The Foundation's initial project, to raise funds to purchase the land and to build facilities for the programs and administrative offices of Horsepower, Inc., is ongoing.

Basis of Accounting

The accompanying consolidated financial statements are presented on the accrual basis of accounting. Using this method, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The Organization 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. There were no permanently restricted net assets at December 31, 2017.

Cash Equivalents and Supplemental Disclosure for Statement of Cash Flows

For purposes of reporting cash flows, the Organization considers all checking accounts and savings accounts to be cash equivalents. The Organization paid no income taxes during the year.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment

The organization capitalizes purchased property and equipment in excess of $1,000 at cost. In the case of donated assets, property and equipment is stated at the estimated fair value at date of donation. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose or long-term use. Property and equipment are depreciated using the straight-line method over the estimated useful lives, ranging from 3 to 40 years. Expenditures for maintenance and repairs that do not improve or extend the life of an asset are expensed as incurred.

Contributions

Contributions and grants are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor restricted contributions and grants are reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction and/or satisfaction of the program restriction. Contributions are recognized when a donor makes an unconditional promise to give to the Organization. Unconditional promises to give that are expected to be collected in less than one year are measured at net realizable value because that amount results in a reasonable estimate of fair value in accordance with the contributions received section of the FASB ASC.

Donated Services

Donated services that create or enhance nonfinancial assets, or that require specialized skills that typically would be purchased if not provided by the donation, are recorded at fair value in the period received.

During 2017, the organization received donated construction services valued at $2,210. A substantial number of volunteers donate significant amounts of their time to the organization and its programs; however, these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Income Tax Status

Each entity is exempt from income tax status under Section 501(c)(3) of the Internal Revenue Code (IRC) except on net income derived from unrelated business activities. Horsepower Inc. is classified as an organization other than a private foundation under Section 509(a)(2) of the IRC. Horsepower Foundation, Inc. is classified as a supporting organization under Section 509(a)(3). The entities had no qualified unrelated business income. Each entity has evaluated all tax positions to identify any that might be uncertain. No material uncertain tax positions were identified for the year ended December 31, 2017. Accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements. The Federal tax returns for the years ended 2014 and thereafter remain subject to examination by the Internal Revenue Service.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Functional Allocation of Expenses

The costs of providing the 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 administrative activities benefited.

Note 2. Unconditional Promises to Give

Unconditional promises to give at December 31, 2017 were as follows:

	Promise To Give	Promise to Give After Discount to Net Present Value
Pledges receivable due in less than one year	$ 128 000	$ 128 000
Pledges receivable greater than one year	6 000	6 000
	134 000	134 000
Less allowance for doubtful accounts	-	-
	$ 134 000	$ 134 000

Management has determined that the promises to give are fully collectible and therefore no allowance for uncollectible accounts was considered necessary at December 31, 2017.

Note 3. Long-Term Debt

On January 9, 2017, the organization borrowed $131,750 at an interest rate of 3.99% per annum to be used for the purchase of real property adjacent to its existing property in High Point, North Carolina. The note payable to a bank requires interest-only payments through January 9, 2018. Monthly principal payments of $802 are scheduled to commence on February 9, 2018, with a balloon payment of all remaining principal and accrued interest due on January 9, 2022. The note is secured by the organization's property. The future scheduled maturities of long-term debt are as follows:

Year ending December 31, 2019	$ 4 562
2020	4 736
2021	4 945
2022	112 963
	$ 127 206

Note 4. Net Assets Released From Restrictions

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes, or by expiration of time restrictions. During 2017, the Organization released $3,000 of net assets from temporarily restricted to unrestricted due to satisfaction of time restrictions.

Note 5. Temporarily Restricted Net Assets

At December 31, 2017, temporarily restricted net assets were available for the following purposes or periods:

Time restricted unconditional promises to give	$ 134 000
Capital campaign - purpose restriction	116 258
Other purpose restrictions	23 000
	$ 273 258

Note 6. Lease Obligations

The Organization rents property at Horsepower, Inc.'s current location for $300 per month under a cancelable lease. In addition, the organization rents pasture land on a month-to-month basis for $300 per month.

Horsepower, Inc. is obligated under a non-cancelable, ten-year lease to pay $2,750 per month to the Foundation. During 2015, the entities agreed to suspend monthly payments under the lease until construction is completed and Horsepower, Inc. relocates its operations to the Foundation's property.

Note 7. Retirement 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 to the plan.

Note 8. Inter-organization Transactions

During 2017, Horsepower, Inc. provided personnel services without charge to the Foundation at an estimated cost of $3,000 in financial accounting services and $8,000 in fundraising. The Foundation recognized the total $11,000 as donated services and related personnel expense in the year ended December 31, 2017.

Note 9. Subsequent Events

The Organization has evaluated events and transactions through November 9, 2018, which is the date the financial statements were available to be issued.

HORSEPOWER, INC. AND SUPPORTING ORGANIZATION

SCHEDULE I - SCHEDULE OF CONSOLIDATING STATEMENT OF FINANCIAL POSITION
As of December 31, 2017

ASSETS	Horsepower, Inc.	Horsepower Foundation, Inc.	Total	Eliminating Entries	Consolidated Totals
Current Assets					
Cash	$ 78 780	$ 210 140	$ 288 920	$ -	$ 288 920
Unconditional promises to give	9 000	125 000	134 000	-	134 000
Prepaid expenses	10 655	-	10 655	-	10 655
Other current assets	305	171	476	-	476
Total current assets	98 740	335 311	434 051	-	434 051
Property and Equipment					
Land	-	463 847	463 847	-	463 847
Buildings	96 418	81 911	178 329	-	178 329
Riding arena	92 108	-	92 108	-	92 108
Equipment	70 088	9 669	79 757	-	79 757
Horses	31 800	-	31 800	-	31 800
Construction in progress	-	423 866	423 866	-	423 866
Less accumulated depreciation	(180 210)	(2 155)	(182 365)	-	(182 365)
Net property and equipment	110 204	977 138	1 087 342	-	1 087 342
Total assets	$ 208 944	$ 1 312 449	$ 1 521 393	$ -	$ 1 521 393
LIABILITIES AND NET ASSETS					
Current Liabilities					
Deferred revenue	$ 6 630	$ -	$ 6 630	$ -	$ 6 630
Current maturities of long-term debt	-	4 032	4 032	-	4 032
Other current liabilities	200	-	200	-	200
Total current liabilities	6 830	4 032	10 862	-	10 862
Long-term Liabilities					
Long-term debt	-	127 206	127 206	-	127 206
Total long-term liabilities	-	127 206	127 206	-	127 206
Total liabilities	6 830	131 238	138 068	-	138 068
Net Assets					
Unrestricted	193 114	916 953	1 110 067	-	1 110 067
Temporarily restricted	9 000	264 258	273 258	-	273 258
Total net assets	202 114	1 181 211	1 383 325	-	1 383 325
Total liabilities and net assets	$ 208 944	$ 1 312 449	$ 1 521 393	$ -	$ 1 521 393

See notes to financial statements

HORSEPOWER, INC. AND SUPPORTING ORGANIZATION

SCHEDULE I - SCHEDULE OF CONSOLIDATING STATEMENT OF ACTIVITIES

For the year ended December 31, 2017

	Horsepower, Inc.	Horsepower Foundation, Inc.	Total	Eliminating Entries	Consolidated Totals
Support and Revenue					
Contributions and grants	$ 132 402	$ 351 367	$ 483 769	$ -	$ 483 769
Donated horses	800	-	800	-	800
Donated services	-	13 210	13 210	(11 000)	2 210
Lessons	104 555	-	104 555	-	104 555
Rentals	8 020	-	8 020	-	8 020
Special events	66 160	-	66 160	-	66 160
Less: direct benefit to donors	(7 835)	-	(7 835)	-	(7 835)
Total support and revenue	304 102	364 577	668 679	(11 000)	657 679
Functional Expenses					
Program services	219 366	17 826	237 192	-	237 192
Management and general	47 423	3 690	51 113	(3 000)	48 113
Fundraising	40 490	8 085	48 575	(8 000)	40 575
Total expenses	307 279	29 601	336 880	(11 000)	325 880
Change in net assets	(3 177)	334 976	331 799	-	331 799
Net assets beginning of year	205 291	846 235	1 051 526	-	1 051 526
Net assets end of year	$ 202 114	$ 1 181 211	$ 1 383 325	$ -	$ 1 383 325