

HAPPY TRAILS RIDING ACADEMY

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT

SEPTEMBER 30, 2011 AND 2010

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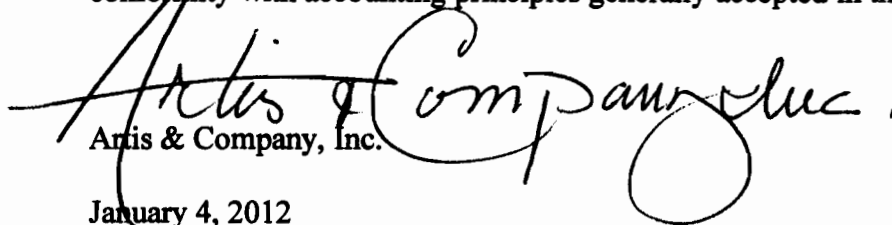
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Happy Trails Riding Academy

We have audited the accompanying statements of financial position of Happy Trails Riding Academy (a nonprofit organization) as of September 30, 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 Organization'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 Happy Trails Riding Academy as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


Artis & Company, Inc.
January 4, 2012

HAPPY TRAILS RIDING ACADEMY

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 75,199	\$ 152,595
Accounts Receivable	39,150	72,639
Pledges Receivable (Note 1)	<u>-</u>	<u>760</u>
Total Current Assets	<u>114,349</u>	<u>225,994</u>
Property and Equipment, Net of Accumulated Depreciation (Note 2)	<u>943,287</u>	<u>704,620</u>
OTHER ASSETS		
Prepaid Insurance	<u>-</u>	<u>1,511</u>
Total Other Assets	<u>-</u>	<u>1,511</u>
TOTAL ASSETS	<u>\$ 1,057,636</u>	<u>\$ 932,125</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ -	\$ 5,848
Credit Cards Payable	1,151	436
Accrued Liabilities	-	10,625
Current Portion of Long-Term Debt (Note 4)	<u>21,028</u>	<u>107,719</u>
Total Current Liabilities	22,179	124,628
LONG-TERM DEBT, NET OF CURRENT PORTION (Note 4)	<u>37,175</u>	<u>75,923</u>
Total Liabilities	<u>59,354</u>	<u>200,551</u>
NET ASSETS		
Unrestricted	979,239	576,208
Board Designated	10,000	-
Temporarily Restricted (Note 5)	<u>9,043</u>	<u>155,366</u>
Total Net Assets	<u>998,282</u>	<u>731,574</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,057,636</u>	<u>\$ 932,125</u>

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

HAPPY TRAILS RIDING ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Support			
Fundraising	\$ 130,252	\$ -	\$ 130,252
Contributions	30,000	308,253	338,253
Grant Income	113,867	-	113,867
Donated Supplies and Services	40,422	-	40,422
	<u>314,541</u>	<u>308,253</u>	<u>622,794</u>
Revenues			
Riders Fees	17,402	-	17,402
Interest Income	255	-	255
Loss on Abandoned Assets	(1,381)	-	(1,381)
Miscellaneous Income	169	-	169
	<u>16,445</u>	<u>-</u>	<u>16,445</u>
Net Assets Released From Restriction	<u>454,576</u>	<u>(454,576)</u>	<u>-</u>
	<u>785,562</u>	<u>(146,323)</u>	<u>639,239</u>
EXPENSES			
Program Services	257,451	-	257,451
Supporting Services			
Administrative	65,553	-	65,553
Fundraising	49,527	-	49,527
	<u>372,531</u>	<u>-</u>	<u>372,531</u>
Change in Net Assets	413,031	(146,323)	266,708
Net Assets at Beginning of Year	<u>576,208</u>	<u>155,366</u>	<u>731,574</u>
Net Assets at End of Year	<u>\$ 989,239</u>	<u>\$ 9,043</u>	<u>\$ 998,282</u>

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

HAPPY TRAILS RIDING ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Support			
Fundraising	\$ 117,352	\$ -	\$ 117,352
Contributions	50,270	154,317	204,587
Grant Income	96,183	-	96,183
Donated Supplies and Services	35,215	-	35,215
Scholarships	1,068	-	1,068
	<u>300,088</u>	<u>154,317</u>	<u>454,405</u>
Revenues			
Riders Fees	23,919	-	23,919
Interest Income	334	-	334
Loss on Abandoned Assets	(3,595)	-	(3,595)
Miscellaneous Income	3,054	-	3,054
	<u>23,712</u>	<u>-</u>	<u>23,712</u>
Net Assets Released From Restriction	<u>951</u>	<u>(951)</u>	<u>-</u>
	<u>324,751</u>	<u>153,366</u>	<u>478,117</u>
EXPENSES			
Program Services	222,169	-	222,169
Supporting Services			
Administrative	36,621	-	36,621
Fundraising	19,293	-	19,293
	<u>278,083</u>	<u>-</u>	<u>278,083</u>
Change in Net Assets	46,668	153,366	200,034
Net Assets at Beginning of Year	<u>529,540</u>	<u>2,000</u>	<u>531,540</u>
Net Assets at End of Year	<u>\$ 576,208</u>	<u>\$ 155,366</u>	<u>\$ 731,574</u>

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

HAPPY TRAILS RIDING ACADEMY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Program Services Expenses	Supporting Services Administration Expenses	Fundraising Expenses	Total Expenses
Accounting	\$ -	\$ 13,805	\$ -	\$ 13,805
Advertising	2,188	-	-	2,188
Awards and Recognition	301	-	-	301
Bank Charges	-	1,351	-	1,351
Contract Labor	1,291	-	-	1,291
Depreciation	58,865	3,500	-	62,365
Dues and Subscriptions	2,399	-	-	2,399
Education	3,035	546	-	3,581
Employee Vehicle Expense	1,842	-	-	1,842
Ferrier Services	3,295	-	-	3,295
Feed and Hay	8,265	-	-	8,265
Fundraising Expenses	-	-	29,557	29,557
Horse Expenses	5,508	-	-	5,508
Insurance - Health	11,192	-	-	11,192
Insurance - Property	5,644	-	-	5,644
Insurance - Worker's Comp	21,590	-	-	21,590
Interest Expense	6,324	-	-	6,324
Meals	-	1,613	-	1,613
Miscellaneous Expenses	2,477	3,408	-	5,885
Office Expenses	-	5,378	-	5,378
Payroll Tax Expenses	7,655	2,795	1,701	12,151
Postage and Delivery	-	1,462	-	1,462
Program Expenses	1,165	-	-	1,165
Property Taxes	781	-	-	781
Repairs and Maintenance	17,154	-	-	17,154
Salaries and Wages	80,648	28,535	18,269	127,452
Taxes and Licenses	63	-	-	63
Telephone	-	3,160	-	3,160
Utilities	10,166	-	-	10,166
Vet Services and Supplies	5,603	-	-	5,603
Total Expenses	\$ 257,451	\$ 65,553	\$ 49,527	\$ 372,531

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

HAPPY TRAILS RIDING ACADEMY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Program Services Expenses	Supporting Services Administration Expenses	Fundraising Expenses	Total Expenses
Accounting	\$ -	\$ 18,644	\$ -	\$ 18,644
Advertising	337	-	-	337
Bank Charges	-	1,499	-	1,499
Contract Labor	1,017	-	-	1,017
Depreciation	52,812	164	-	52,976
Dues and Subscriptions	1,120	-	-	1,120
Education	1,837	3,012	-	4,849
Employee Vehicle Expense	857	-	-	857
Ferrier Services	2,810	-	-	2,810
Feed and Hay	7,119	-	-	7,119
Fundraising Expenses	-	-	16,303	16,303
Horse Expenses	3,747	-	-	3,747
Insurance - Health	10,556	-	-	10,556
Insurance - Property	5,215	-	-	5,215
Insurance - Worker's Comp	10,244	-	-	10,244
Interest Expense	18,379	-	-	18,379
Meals	-	151	-	151
Miscellaneous Expenses	951	81	-	1,032
Office Expenses	-	3,029	-	3,029
Payroll Tax Expenses	4,409	1,590	1,229	7,228
Postage and Delivery	-	1,220	-	1,220
Program Expenses	1,806	-	-	1,806
Property Taxes	859	-	-	859
Repairs and Maintenance	9,957	-	-	9,957
Salaries and Wages	76,698	4,546	1,761	83,005
Taxes and Licenses	178	-	-	178
Telephone	-	2,685	-	2,685
Utilities	8,817	-	-	8,817
Vet Services and Supplies	2,444	-	-	2,444
Total Expenses	\$ 222,169	\$ 36,621	\$ 19,293	\$ 278,083

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

HAPPY TRAILS RIDING ACADEMY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 266,708	\$ 200,034
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	62,365	52,976
Donated Assets	-	(31,000)
Loss on Abandoned Assets	1,381	3,595
(Increase) Decrease in:		
Prepaid Insurance	1,511	(518)
Pledges Receivable	760	9,105
Accounts Receivable	33,489	(72,639)
Increase (Decrease) in:		
Accounts Payable	(5,848)	(9,029)
Credit Cards Payable	715	(1,292)
Accrued Liabilities	(10,625)	6,507
Net Cash Flows Provided by Operating Activities	350,456	157,739
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Assets	(302,413)	-
Net Cash Flows Used by Investing Activities	(302,413)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
New Borrowings of Long Term Debt	28,203	103
Principal Repayments on Long Term Debt	(153,642)	(5,744)
Net Cash Flows Used by Financing Activities	(125,439)	(5,641)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(77,396)	152,098
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	152,595	497
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 75,199	\$ 152,595
Supplemental Information:		
Interest Paid	\$ 6,324	\$ 18,379

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

HAPPY TRAILS RIDING ACADEMY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

1. Summary of Significant Accounting Policies

Nature of Activities

Happy Trails Riding Academy was incorporated in 1983 in California as a not-for-profit organization with the purpose of providing a therapeutic horsemanship program for persons with disabilities. The organization's stated mission statement is as follows:

Happy Trails Riding Academy is a non-profit program that enriches the lives of children and adults with physical, developmental and cognitive disabilities through equine-facilitated therapy. Therapeutic horsemanship provides a unique opportunity for self-improvement and independence in a positive learning environment, offering a challenging alternative to traditional therapy.

Happy Trails Riding Academy conducts its affairs under the management of an elected Board of Directors, a full-time Executive Director, a full-time salaried program director/instructor, a full-time instructor, a part-time administrator, a part-time maintenance person and various unpaid volunteers.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Property and Equipment

Property and equipment are stated at cost when purchased and estimated market value if donated. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

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. Accordingly, actual results could differ from those estimates.

HAPPY TRAILS RIDING ACADEMY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

1. Summary of Significant Accounting Policies (Continued)

Financial Statement 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.

Income Taxes

The Organization is a not-for-profit organization that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of the State of California and is classified as other than a private foundation.

Advertising Costs

It is the policy of Happy Trails Riding Academy to expense advertising costs as they are incurred.

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 supporting services benefited.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. When a 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.

HAPPY TRAILS RIDING ACADEMY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

1. Summary of Significant Accounting Policies (Continued)

Pledges Receivable

All pledges receivable are considered to be fully collectible. Accordingly, no allowance for uncollectible pledges is recorded. Pledges receivable are categorized as follows:

	<u>2011</u>	<u>2010</u>
Pledges Receivable in Less Than One Year	\$ <u> -</u>	\$ <u> 760</u>
Pledges Receivable in One to Five Years	\$ <u> -</u>	\$ <u> -</u>

Donated Services

Donated supplies and services have been reflected in the financial statements for the years ended September 30, 2011 and 2010. Donations of supplies and services are recorded as contributions at their estimated fair value at the date of donation. The Organization generally pays for services requiring specific expertise. Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and various committee assignments. The Organization received 7,500 volunteer hours during the current year. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria for recognition under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*.

Donated Property and Equipment

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

HAPPY TRAILS RIDING ACADEMY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

2. Property and Equipment

The additions and disposals of property and equipment, along with related accumulated depreciation accounts consisted of the following as of September 30, 2011:

	9/30/2010			9/30/2011
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Land	\$ 175,655	\$ -	\$ -	\$ 175,655
Land Improvements	204,879	-	-	204,879
Barn Construction	85,813	-	-	85,813
Fencing	83,407	-	-	83,407
Horses	68,000	4,000	-	72,000
Irrigation	22,285	-	-	22,285
Machinery and Equipment	56,844	23,500	2,000	78,344
Office Equipment and Computers	3,251	3,500	-	6,751
Portable Building	6,597	-	-	6,597
Riding Equipment and Tack	10,919	1,499	-	12,418
Therapy Room	216,730	-	-	216,730
Sensory Trail	61,384	-	-	61,384
Covered Arena	-	269,914	-	269,914
	<u>995,764</u>	<u>\$ 302,413</u>	<u>\$ 2,000</u>	<u>1,296,177</u>
Accumulated Depreciation	<u>291,144</u>	<u>\$ 62,365</u>	<u>\$ 619</u>	<u>352,890</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 704,620</u>			<u>\$ 943,287</u>

3. Line of Credit

The organization has a line of credit with Valley Business Bank in the amount of \$100,000. Interest is payable monthly at prime plus 1.5%, currently 5.75%. There currently is a zero balance with a maturity date of March 21, 2012.

HAPPY TRAILS RIDING ACADEMY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

4. Long Term Debt

Notes payable consisted of the following at September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Note Payable, Fylon Foundation. Principal payable annually at \$10,000 with a interest rate of 2.5%. Principal matures on March 1, 2015 at which time all sums of unpaid principal plus interest is due and payable.	\$ 30,000	\$ 50,000
Note Payable, Valley Business Bank. Monthly installments of \$981 including interest at 3.21% per annum. Real estate serves as collateral.	28,203	-
Note Payable, Westamerica Bank. Monthly installments of \$913 including interest at 6.25% per annum. Real estate serves as collateral.	-	34,303
Business Line with Wells Fargo Bank with a credit limit of \$100,000 opened January 13, 2009 with an interest rate of 13.25% . This loan was used to pay off the Tulare Local Development Company Line of Credit. A minimum payment in the amount of the accrued interest is due monthly.	<u>-</u>	<u>99,339</u>
Total Notes Payable	58,203	183,642
Less: Current Portion	<u>21,028</u>	<u>107,719</u>
Long-Term Portion	<u>\$ 37,175</u>	<u>\$ 75,923</u>

HAPPY TRAILS RIDING ACADEMY

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

4. Long Term Debt (Continued)

Scheduled maturities of long-term debt are as follows for the next five years ending September 30:

2012	\$	21,028
2013		21,387
2014		15,788
2015		-
2016		-
Thereafter		<u>-</u>
	\$	<u>58,203</u>

5. Temporarily Restricted Net Assets

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met either by actions of the organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Net assets were temporarily restricted as of September 30, 2011 and 2010 for the following projects:

	<u>2011</u>	<u>2010</u>
Arena Improvements	\$ -	\$ 2,150
Wheelchair Cart	1,755	-
Grant for Instruction	1,000	-
Sprinklers	1,000	-
Arena Cover	1,109	151,049
Sensory Trail	<u>4,179</u>	<u>2,167</u>
	<u>\$ 9,043</u>	<u>\$ 155,366</u>

6. Subsequent Event

The Company has evaluated subsequent events through January 4, 2012, the date which financial statements were available to be issued.