

Therapeutic Riding, Inc.
Annual Financial Statements and
Independent Auditors' Report
December 31, 2010

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Independent Auditors' Report

Management and the Board of Directors
Therapeutic Riding, Inc.
3425 E. Morgan Rd.
Ann Arbor, MI 48108

We have audited the accompanying statement of financial position of Therapeutic Riding, Inc. Therapeutic Riding, Inc. (the "Organization") as of December 31, 2010, and the related statements of activities, functional expenses and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Organization's 2009 reviewed financial statements, which were reviewed by us, and, our report dated May 3, 2010, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

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 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 audit provides 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 the Organization as of December 31, 2010, and changes in its net assets, functional expenses and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Yeo & Yeo, P.C.
Ann Arbor, Michigan

May 17, 2011

Therapeutic Riding, Inc.
Statement of Financial Position
December 31, 2010 and 2009

	2010 Audited	2009 Unaudited
Assets		
Current assets		
Cash and cash equivalents	\$ 220,890	\$ 269,615
Accounts receivable	3,585	4,635
Pledges receivable, net	47,833	94,000
Investments	50,000	-
Inventory	-	1,855
Total current assets	<u>322,308</u>	<u>370,105</u>
Property and equipment, net	<u>2,385,255</u>	<u>392,425</u>
Other assets		
Deposits	1,500	1,500
Pledges receivable, net	56,361	34,250
Restricted cash	190,599	598,983
Total other assets	<u>248,460</u>	<u>634,733</u>
Total assets	<u>\$ 2,956,023</u>	<u>\$ 1,397,263</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 106,775	\$ 4,294
Note payable	65,376	-
Refundable advances	-	369,302
Total current liabilities	<u>172,151</u>	<u>373,596</u>
Unrestricted net assets		
Undesignated	103,824	240,807
Property and equipment	2,385,255	392,425
Total unrestricted net assets	<u>2,489,079</u>	<u>633,232</u>
Temporarily restricted net assets	<u>294,793</u>	<u>390,435</u>
Total net assets	<u>2,783,872</u>	<u>1,023,667</u>
Total liabilities and net assets	<u>\$ 2,956,023</u>	<u>\$ 1,397,263</u>

See Accompanying Notes to Financial Statements

Therapeutic Riding, Inc.
Statement of Activities

For the Year Ended December 31, 2010 (with Comparative Totals for 2009)

	Unrestricted	Temporarily Restricted	Total	
			2010 Audited	2009 Unaudited
Revenue and support				
Capital campaign donors	\$ -	\$ 1,553,227	\$ 1,553,227	\$ 36,200
Contributions in kind	301,604	-	301,604	51,022
Special events	39,820	-	39,820	36,540
Other donations	45,299	3,942	49,241	79,304
Interest and dividend income	3,336	-	3,336	160
Classes	54,744	-	54,744	52,135
Sale of tack and merchandise	4,753	-	4,753	3,200
Loss on disposal of assets	(15,979)	-	(15,979)	-
Net assets released from restrictions	1,652,811	(1,652,811)	-	-
Total revenue and support	2,086,388	(95,642)	1,990,746	258,561
Expenses				
Program	178,591	-	178,591	164,207
Supporting				
Administrative	23,035	-	23,035	27,191
Fundraising	28,915	-	28,915	15,907
Total expenses	230,541	-	230,541	207,305
Change in net assets	1,855,847	(95,642)	1,760,205	51,256
Net assets at beginning of year	633,232	390,435	1,023,667	972,411
Net assets at end of year	\$ 2,489,079	\$ 294,793	\$ 2,783,872	\$ 1,023,667

See Accompanying Notes to Financial Statements

Therapeutic Riding, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2010 (with Comparative Totals for 2009)

	Support Services			Total	
	Program	Administrative	Fundraising	2010 Audited	2009 Unaudited
Expenses					
Capital campaign	\$ -	\$ -	\$ 4,333	\$ 4,333	\$ 223
Depreciation	3,798	-	-	3,798	4,877
Dues and subscriptions	825	-	-	825	825
Fundraising costs	-	-	13,535	13,535	4,325
Insurance	10,025	1,298	371	11,694	7,942
Miscellaneous	1,862	1,405	-	3,267	1,265
Newsletter	1,824	-	-	1,824	1,652
Payroll taxes	5,909	783	690	7,382	7,480
Postage	-	133	-	133	193
Printing	-	293	-	293	536
Professional fees	4,502	6,277	-	10,779	17,202
Rent	45,000	1,500	1,500	48,000	48,000
Repairs and maintenance	1,634	-	-	1,634	1,235
Salaries	71,744	9,510	8,377	89,631	84,329
Scholarships	3,303	-	-	3,303	2,890
Supplies for horses	11,121	-	-	11,121	10,279
Supplies	670	860	-	1,530	1,110
Telephone	1,635	192	96	1,923	1,455
Travel and mileage	7,547	429	-	7,976	6,131
Utilities	7,192	355	13	7,560	5,356
Total expenses	\$ 178,591	\$ 23,035	\$ 28,915	\$ 230,541	\$ 207,305

See Accompanying Notes to Financial Statements

Therapeutic Riding, Inc.
Statement of Cash Flows
For the Years Ended December 31, 2010 and 2009

	2010	2009
	Audited	Unaudited
Cash flows from operating activities		
Change in net assets	\$ 1,760,205	\$ 51,256
Items not requiring cash		
Depreciation	3,798	4,877
Donated property and equipment	(251,064)	-
Loss on disposal of assets	15,979	-
Changes in operating assets and liabilities		
Accounts receivable	1,050	(4,335)
Pledges receivable	24,056	193,317
Inventory	1,855	(1,265)
Accounts payable	102,481	(5,128)
Refundable advances	(369,302)	2,368
Net cash provided by operating activities	<u>1,289,058</u>	<u>241,090</u>
Cash flows from investing activities		
Purchase of property and equipment	(1,761,543)	(46,148)
Purchase of investments	(50,000)	-
Net cash used by investing activities	<u>(1,811,543)</u>	<u>(46,148)</u>
Cash flows from financing activities		
Proceeds from note payable	65,376	-
Net change in cash and cash equivalents	(457,109)	194,942
Cash and cash equivalents - beginning of year	868,598	673,656
Cash and cash equivalents - end of year	<u>\$ 411,489</u>	<u>\$ 868,598</u>
Supplemental disclosure of non-cash investing activities		
Donated property and equipment	<u>\$ 251,064</u>	<u>\$ -</u>

See Accompanying Notes to Financial Statements

Therapeutic Riding, Inc.
Notes to Financial Statements
December 31, 2010

Note 1 – Organization

Therapeutic Riding, Inc. (the "Organization"), incorporated on March 14, 1984, is a volunteer based, non-profit 501(c)(3) organization that provides the opportunity for personal growth through the horseback riding experience to Washtenaw County area youth and adults with disabilities. The Organization's mission is to develop physical, cognitive, and emotional capabilities and to enhance self-esteem through therapeutic riding.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and in accordance with the Audit and Accounting Guide for Not-for-Profit Organizations issued by the American Institute of Certified Public Accountants.

The Organization's net assets are categorized and reported as follows:

Unrestricted Net Assets

These net assets are available for general operations and are not subject to donor-imposed restrictions.

Temporarily Restricted

These net assets are limited to uses specified by donor-imposed restrictions. When donor restrictions expire or the nature and purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted

These net assets would include the principal amount accepted by the Organization with the donor's stipulation that the principal be maintained in perpetuity.

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. Investment income that is limited to specific uses by donor restrictions is reported as unrestricted if the restrictions are met in the same reporting period as the income is recognized.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. For the purpose of the statement of cash flows, cash and cash equivalents does not include restricted cash because it is not available for operations.

Therapeutic Riding, Inc.
Notes to Financial Statements
December 31, 2010

Restricted Cash

Restricted cash consists of funds received as a conditional promise to give. These funds will be recognized as revenue when the stipulations are met at a later date as discussed in Note 12.

Investments

Investments are stated at fair values based upon quoted market prices using prevailing financial market information as of December 31, 2010. Realized gains and losses represent the difference between the proceeds received and the cost of investments sold. Unrealized gains and losses represent the change in the market value of the investments during the year.

Concentrations and Credit Risks

The Organization has cash accounts at various local banks. Accounts at these financial institutions are insured by the FDIC up to \$250,000. At December 31, 2010, no cash account balances were in excess of the FDIC coverage limit.

Pledges Receivable

Pledges receivable are presented at their estimated collectable amount net of a present value discount. Management has determined that contributions receivable are substantially collectable and as such, no provision has been made for doubtful accounts.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The allowance is based on experience, third party contracts, and other circumstances, which may affect the ability of its customers to meet their obligations. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Management has determined that contributions receivable are substantially collectable and as such, no provision has been made for doubtful accounts.

Property and Equipment

Acquisitions or donations of property and equipment costing or valued over \$500, and with an estimated useful life of more than one year, are capitalized at cost or estimated market value at date of donation. Depreciation of fixed assets is recorded on a straight-line basis or an accelerated basis over estimated useful lives ranging from three to seven years.

Planned Major Maintenance

The Organization uses the direct expensing method to account for planned major maintenance activities.

Functional Allocation of Expenses

Expenses are accumulated and reported by function, for program services or supporting purposes. Program services are activities that fulfill the Organization mission of providing physically, emotionally and developmentally disabled individuals with exercise through therapeutic horseback riding. Supporting services of administrative and fundraising activities include governance, record-keeping, budgeting and administration other than for direct conduct of program services. Expenses, including wages and salaries, payroll taxes and benefits, as well as office and facility costs are allocated among the functional classifications based on the functional use of staff time, and the direct or indirect effect on activities.

Therapeutic Riding, Inc.
Notes to Financial Statements
December 31, 2010

Donated goods and services

Significant services are donated to the organization. Donated services are recorded at fair market value at the date of donation, and have been included in revenue and expenses. Donated goods and services for the years ended December 31, 2010 and 2009, were valued at \$301,604 and \$51,022, respectively.

Income tax status

The Organization is a nonprofit Michigan corporation recognized as exempt from federal income taxes pursuant to section 501 (c)(3) of the Internal Revenue Code.

The organization files informational returns in the U.S. Federal and Michigan jurisdiction. The statute of limitations is generally three years for federal returns and four years for Michigan returns.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

Comparative Financial Statements

The amounts shown for the year ended December 31, 2009, in the accompanying financial statements are included to provide a basis for comparison with 2010 and present summarized totals only. Accordingly, the 2009 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Subsequent Events

Management has evaluated subsequent events through the date of the Independent Auditors' Report which is the date the financial statements were available to be issued.

Note 3 – Pledges receivable

Pledges receivable consist of the following at December 31, 2010 and 2009, respectively:

	<u>2010</u>	<u>2009</u>
Pledges receivable	\$ 105,514	\$ 129,000
Less: discount for present value	(1,320)	(750)
Total	<u>\$ 104,194</u>	<u>\$ 128,250</u>

Therapeutic Riding, Inc.
Notes to Financial Statements
December 31, 2010

The contributions receivable are due as follows as of December 31, 2010:

Less than one year	\$ 47,833
One to five years	<u>56,361</u>
Total pledges receivable	<u><u>\$ 104,194</u></u>

Capital campaign contributions receivable with due dates extending beyond one year for the years ended December 31, 2010 and 2009, are discounted using a 2% annual rate of interest. The capital campaign contributions receivable are restricted in use for costs and expenses of land and a new facility, and the capital campaign itself.

Note 4 - Investments

The Organization's investments are carried at fair value based on quoted prices in active markets (all level 1 measurements). Investments were \$50,000 and \$0 at December 31, 2010 and 2009, respectively. There were no realized and unrealized gains and losses on investments, as this account was set up close to the end of 2010.

Note 5 - Fair Value Measurements

Fair Value Measurements establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Basis of Fair Value Measurement

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following tables present by level, within the fair value hierarchy, the Organization's assets at fair value, as of December 31, 2010 and 2009, respectively. Assets are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement.

Therapeutic Riding, Inc.
Notes to Financial Statements
December 31, 2010

Fair Value Measurements at Reporting Date Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2010				
Investments	\$ 50,000	\$ 50,000	\$ -	\$ -
Multi-year pledges receivable	56,361	-	-	56,361
Totals	\$ 106,361	\$ 50,000	\$ -	\$ 56,361
 December 31, 2009				
Investments	\$ -	\$ -	\$ -	\$ -
Multi-year pledges receivable	34,250	-	-	34,250
Totals	\$ 34,250	\$ -	\$ -	\$ 34,250

The Organization's multi-year pledges receivable are all included in the Level 3 of the fair value hierarchy. Their present value expected of future cash flows is based on a discounted rate of 2%, as of December 31, 2010 and 2009. Total assets at fair value classified within level 3 were \$56,361 and \$34,250, as of December 31, 2010 and 2009, respectively, which consists of the multi-year pledges receivable. Such amounts were approximately 2% and 3% of total assets on the Organization's statement of net assets available as of December 31, 2010 and 2009, respectively.

Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year ended December 31, 2010 and 2009, respectively:

Description	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	2010	2009
Balance at January 1	\$ 34,250	\$ 111,800
New multi-year pledges receivable	47,167	-
Less collected multi-year pledges receivable	(24,486)	(84,500)
Change in fair value adjustment	(570)	6,950
Balance at December 31	\$ 56,361	\$ 34,250

Therapeutic Riding, Inc.
Notes to Financial Statements
December 31, 2010

Note 6 - Property and Equipment

Property and equipment consist of the following at December 31:

	2010	2009
Computer equipment	\$ 5,783	\$ 5,783
Equipment and tack	80,026	28,497
Horses	27,315	29,815
Leasehold improvements	-	32,820
Land	210,541	210,541
Land improvements	788,287	-
Building	1,331,336	-
Construction in progress	-	159,045
	2,443,288	466,501
Less accumulated depreciation	(58,033)	(74,076)
Total	\$ 2,385,255	\$ 392,425

Depreciation expense for the years ended December 31, 2010 and 2009, was \$3,798 and \$4,877, respectively.

The Organization's land is subject to a perpetual conservation easement in accordance with the Michigan Conservation and Historic Preservation Easement Act, MCL Sec. 324.2140, in order to preserve the character of the property in its scenic, agricultural, and open space condition. This land, which was partially purchased and partially donated, was recorded at fair value on the date of acquisition in 2008.

Note 7 – Note Payable

In 2010, the Organization obtained an unsecured note payable with 4% interest, due in quarterly installments. Principal sum together with interest is to be paid in full on or before December 31, 2011. Note payable balance was \$65,376 as of December 31, 2010.

Note 8 – Temporary Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of December 31:

	2010	2009
Horse acquisition fund	\$ 7,196	\$ 7,039
Zirinski Scholarship Program	10,695	10,210
Capital campaign	276,902	373,186
Total	\$ 294,793	\$ 390,435

Therapeutic Riding, Inc.
Notes to Financial Statements
December 31, 2010

Note 9 - Contributions in Kind

The Organization, received donated goods and services during the years ended December 31, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Use of facilities	\$ 48,000	\$ 48,000
Donation of caretaker's house	35,000	-
Veterinary	1,879	1,536
Professional service providers other than vet	-	120
Goods and services	216,725	1,366
Total	<u>\$ 301,604</u>	<u>\$ 51,022</u>

Note 10 – Related Party Transactions

A current member of the Organization's Board of Directors is also the owner of the business with which the Organization negotiated the note payable for \$65,376 described in Note 7. The same company donated in kind services for building of the Organization's new facility in total amount of \$181,334.

Note 11 - Capital Campaign

The Organization held a capital campaign to raise money for the purchase of land and the construction of new facilities. During 2006, the Organization received a conditional promise to give of \$1,000,000 towards this project, as discussed in Note 12.

Note 12 - Conditional Promises to Give

During 2006 the Organization received a conditional promise to give totaling \$1,000,000 that contained donor conditions. Of this, \$341,109 was received in 2006. The terms of this donation state that approximately \$873,000 would be used for the construction of facilities and \$127,000 would be used for the purchase of land. The conditions of the donation also stated that (a) The Organization was expected to raise an additional \$500,000; (b) ground breaking was to start within 30 days of purchasing the land, obtaining all required permits and approvals from any governing agencies, and securing funds for the total cost of the project, and (c) that the new facilities would be completed and operational within one year of ground-breaking.

Since these donations represented conditional promises to give, they were not recorded as contribution revenue until donor conditions were met. Initial funds received from the donor in advance of the conditions being met totaled \$341,109; were recorded as refundable advances as of December 31, 2009; and were recognized as contribution revenue during 2010, when donor conditions were met.

Therapeutic Riding, Inc.
Notes to Financial Statements
December 31, 2010

As part of the Organization's custody of the funds, any interest income earned subsequent to the \$341,109 received was also included as refundable advances. Refundable advances at December 31, 2010 and 2009, were \$0 and \$369,302, respectively.