

**NORTH AMERICAN RIDING FOR THE
HANDICAPPED ASSOCIATION, INC.**

Financial Statements As Of June 30, 2011
(With Summarized Financial Information
As Of June 30, 2010)

Together With Independent Auditors' Report

JDS professional
group
certified public accountants, consultants and advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
North American Riding for the Handicapped Association, Inc.:

We have audited the accompanying statement of financial position of North American Riding for the Handicapped Association, Inc. ("NARHA") as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of NARHA'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 NARHA's June 30, 2010, financial statements and in our report dated October 22, 2010, we expressed an unqualified opinion on those financial statements.

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 North American Riding for the Handicapped Association, Inc. as of June 30, 2011, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The supplemental schedule of functional expenses for the year ended June 30, 2011, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

JDS Professional Group

October 24, 2011

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NORTH AMERICAN RIDING FOR THE HANDICAPPED ASSOCIATION, INC.

Statement Of Financial Position

As Of June 30, 2011

(With Summarized Financial Information As Of June 30, 2010)

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ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and cash equivalents	\$ 325,735	\$ 437,560
Accounts receivable	35,249	43,505
Prepaid expenses	52,589	58,319
Investments	203,014	200,958
Inventories	41,470	44,171
Total Current Assets	<u>658,057</u>	<u>784,513</u>
Other assets	4,486	6,165
Intangible assets	52,589	
Property and equipment, net of accumulated depreciation	<u>38,413</u>	<u>49,337</u>
TOTAL ASSETS	<u><u>\$ 753,545</u></u>	<u><u>\$ 840,015</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 93,541	\$ 28,948
Accrued liabilities	36,851	23,399
Deferred revenue	511,976	447,812
Total Current Liabilities	<u>642,368</u>	<u>500,159</u>
Long-Term Liabilities:		
Deferred revenue	<u>86,842</u>	<u>87,617</u>
Total Liabilities	<u>729,210</u>	<u>587,776</u>
Net Assets:		
Unrestricted	(93,153)	112,650
Temporarily restricted	<u>117,488</u>	<u>139,589</u>
Total Net Assets	<u>24,335</u>	<u>252,239</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 753,545</u></u>	<u><u>\$ 840,015</u></u>

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

NORTH AMERICAN RIDING FOR THE HANDICAPPED ASSOCIATION, INC.

Statement Of Activities

For The Year Ended June 30, 2011

(With Summarized Financial Information For The Year Ended June 30, 2010)

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
Support And Revenue:				
Membership dues	\$ 855,720	\$	\$ 855,720	\$ 783,434
Program accreditation and certification fees	313,749		313,749	271,642
Conference	437,341		437,341	469,099
Contributions	80,126	35,046	115,172	92,109
Merchandise revenue	70,401		70,401	80,578
Investment income	3,381		3,381	3,912
Miscellaneous revenue	26,249		26,249	37,507
In-kind contributions	8,400		8,400	3,000
Net assets released from restrictions-				
Satisfaction of program restrictions	57,147	(57,147)		
Total Support And Revenue	<u>1,852,514</u>	<u>(22,101)</u>	<u>1,830,413</u>	<u>1,741,281</u>
Expenses:				
Program services -				
Equine assisted activities	1,691,222		1,691,222	1,362,830
Supporting services -				
Fundraising	100,203		100,203	127,685
General and administrative	266,892		266,892	292,976
Total Supporting	<u>367,095</u>		<u>367,095</u>	<u>420,661</u>
Total Expenses	<u>2,058,317</u>		<u>2,058,317</u>	<u>1,783,491</u>
CHANGES IN NET	<u>(205,803)</u>	<u>(22,101)</u>	<u>(227,904)</u>	<u>(42,210)</u>
Net Assets, Beginning of Year	<u>112,650</u>	<u>139,589</u>	<u>252,239</u>	<u>294,449</u>
NET ASSETS, END OF YEAR	<u>\$ (93,153)</u>	<u>\$ 117,488</u>	<u>\$ 24,335</u>	<u>\$ 252,239</u>

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

NORTH AMERICAN RIDING FOR THE HANDICAPPED ASSOCIATION, INC.

Statement Of Cash Flows

For The Year Ended June 30, 2011

(With Summarized Financial Information For The Year Ended June 30, 2010)

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	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Changes in net assets	\$ (227,904)	\$ (42,210)
Adjustments to reconcile changes in net to net cash provided by operating activities:		
Depreciation	14,695	9,051
Donated stock		12,030
Bad debt expense	570	20,000
Changes in operating assets and liabilities -		
(Increase) decrease in accounts receivable	7,686	(23,166)
(Increase) decrease in prepaid expenses	5,730	(38,455)
Decrease in inventories	2,701	3,086
Decrease in other assets	1,679	
Increase (decrease) in accounts payable	64,593	(27,805)
Increase (decrease) in accrued liabilities	13,452	(6,051)
Increase in deferred revenue	63,389	3,710
Net cash (used in) operating activities	<u>(53,409)</u>	<u>(89,810)</u>
Cash flows from investing activities:		
Purchase of investments	(2,056)	(213,169)
Sales of investments		197,637
Purchases of property and equipment	(3,771)	(44,446)
Acquisition of intangible assets	<u>(52,589)</u>	
Net cash (used in) investing activities	<u>(58,416)</u>	<u>(59,978)</u>
NET (DECREASE) IN		
CASH AND CASH EQUIVALENTS	(111,825)	(149,788)
Cash and Cash Equivalents, Beginning Of Year	<u>437,560</u>	<u>587,348</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 325,735</u></u>	<u><u>\$ 437,560</u></u>

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

(1) **Nature Of Organization**

North American Riding for the Handicapped Association, Inc. ("NARHA") is a not-for-profit corporation established in 1969 to provide for the well-being of individuals with special needs through horseback riding. NARHA also provides proper training and examination for riding centers and instructors throughout the world. NARHA's revenues are earned primarily from membership dues, program fees, and conferences.

(2) **Summary Of Significant Accounting Policies**

Basis Of Accounting

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

Basis Of Presentation

Financial statement presentation follows the recommendations of *Financial Statements of Not-for-Profit Organizations*. NARHA 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.

Statement Of Cash Flows

For purposes of the statement of cash flows, cash and cash equivalents consists of all highly liquid debt instruments with initial maturities of three months or less.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Receivables

Contributions receivable represents unconditional grants awarded that have not been received. The pledges are generally receivable in the near term and are not subject to discounting. Accounts receivable represents amounts due for services provided.

Promises To Give

Unconditional promises to give are recognized as temporarily restricted revenues or gains in the period pledged and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give are recorded at net realizable value if expected to be collected in one year and at net present value if expected to be collected in more than one year.

Management estimates an allowance for doubtful accounts based on review of outstanding balances and other factors pertaining to collectibility. As of June 30, 2011, no allowance for doubtful accounts was provided.

Inventory

Inventory consists of association merchandise and equine therapy professional resource materials. Cost is determined using the first in, first out method of accounting.

Property And Equipment

Property and equipment is stated at cost or, if donated, at the approximate fair value at the date of the donation. Property and equipment is depreciated on the straight-line method using lives ranging from three to ten years. Expenditures for maintenance, repairs and minor replacements are charged to operations and expenditures for major replacements and betterments in excess of \$500 are capitalized.

Intangible Assets

Intangible assets consist of trademarks. Indefinite-lived intangible assets are not amortized, but are tested for impairment annually, or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. The trademarks must be renewed and usage confirmed between 5-6 years after registration, again at 9-10 years, and every 10 years thereafter at little cost. The costs incurred to renew the trademarks will be expensed as incurred.

Each year, NARHA evaluates whether events and circumstances warrant a revision to the remaining estimated useful life of each intangible asset. If NARHA were to determine that events and circumstances warrant a change to the estimate of an intangible asset's remaining useful life, then the remaining carrying amount of the intangible asset would be amortized prospectively over that revised remaining useful life.

Additionally, other events and circumstances may indicate that the carrying value of one or more intangible assets is not recoverable and its fair value is less than the intangible asset's carrying value, resulting in the recognition of an impairment charge.

A change in the estimate of the remaining life of one or more intangible assets or the impairment of one or more intangible assets could have a material impact on NARHA's statement of activities and financial position. NARHA's intangible assets' carrying value which is not subject to amortization was \$52,589 as of June 30, 2011.

Fair Value Measurements

NARHA uses fair value measurements which among other things requires enhanced disclosures about investments that are measured and reported at fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that NARHA has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Certificates of deposit: The fair value of the certificates of deposit is based on original cost plus accrued interest.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while NARHA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The carrying amount reported in the statement of financial position for cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities, approximate fair value because of the immediate or short-term maturities.

Contributions

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

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Membership Dues

Membership dues are deferred and recognized as revenue in equal monthly installments during the applicable membership year. Dues from lifetime memberships are recognized as revenue over the estimated life of the member.

In-Kind Contributions

In-kind contributions are recorded in the accompanying financial statements at fair market value as of the date of donation.

Contributed services are recorded if they create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be

purchased if not provided by donation. A significant portion of NARHA's functions, which are conducted by unpaid volunteers, is not reflected in the accompanying financial statements since a significant portion of the volunteers' time does not meet the criteria for recognition.

Functional Allocation Of Expenses

The costs of providing various program support and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs are allocated among the program and supporting services benefitted.

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with NARHA's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Subsequent Events

NARHA has performed an evaluation of subsequent events through October 24, 2011, which is the date the financial statements were available to be issued, and has considered any relevant matters in the preparation of the financial statements and footnotes.

(3) Tax Exempt Status

NARHA has previously received notice from the Internal Revenue Service of exemption from income tax under Section 501(c)(3) of the Internal Revenue Code and is considered a public charity under Section 509(a)(2) of the Internal Revenue Code. As such, donors are entitled to a charitable deduction for their contribution to NARHA. Accordingly, the accompanying financial statements contain no provision for income taxes. NARHA did not incur any material income tax expense from these unrelated activities for the year ended June 30, 2011.

NARHA follows the *Accounting for Uncertainty in Income Taxes* accounting standard, which requires them to determine whether a tax position (and the related tax benefit) is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant

NORTH AMERICAN RIDING FOR THE HANDICAPPED ASSOCIATION, INC.

Notes To Financial Statements (continued)

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information. During the year ended June 30, 2011, NARHA's management evaluated its tax positions to determine the existence of uncertainties, and did not note any matters that would require recognition or which may have an affect on its tax-exempt status.

NARHA is no longer subject to U.S. federal tax audits on its Form 990 and 990-T by taxing authorities for fiscal years ending prior to June 30, 2008. NARHA is no longer subject to state tax audits on its Form 112 state tax return by taxing authorities for fiscal years ending prior to June 30, 2007. The years subsequent to these years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as it relates to the amount and/or timing of income, deductions, and tax credits. Although the outcome of tax audits is uncertain, NARHA believes no issues would arise.

(4) Concentration Of Credit Risk

NARHA's cash demand deposits are held at financial institutions where interest bearing deposits are insured up to \$250,000 per institution by the FDIC. As of June 30, 2011, the balance at the financial institutions did exceed the FDIC's insurance limit by approximately \$94,000.

(5) Property And Equipment

As of June 30, 2011, property and equipment consisted of the following:

Office equipment	\$ 33,453
Computer equipment and software	69,890
	<u>103,343</u>
Less: accumulated depreciation	(64,930)
	<u><u>\$ 38,413</u></u>

(6) Investments

NARHA's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2011 consist of certificates of deposits which are reflected as a Level 1 investments in the amount of \$203,014.

NORTH AMERICAN RIDING FOR THE HANDICAPPED ASSOCIATION, INC.

Notes To Financial Statements (continued)

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(7) Deferred Revenue

As of June 30, 2011, deferred revenue consisted of the following:

Operating center dues	\$ 234,047
Individual membership dues	71,988
Instructor dues	113,218
Lifetime Membership Dues	90,315
Conferences	89,250
	<u>598,818</u>
Less dues expected to be recognized in one year	511,976
Long-term membership dues	<u>\$ 86,842</u>

(8) Commitments

NARHA leases office space and equipment, under noncancellable operating leases which expire on December 31, 2011 and January 30, 2014, respectively. In addition, NARHA entered into a web service contract expiring on November 30, 2011. Future minimum payments are as follows:

For the year ended June 30,

2012	\$ 61,072
2013	11,873
2014	6,926
	<u>\$ 79,871</u>

Rent expense for the year ended June 30, 2011, was \$70,171.

(9) Restricted Net Assets

As of June 30, 2011, temporarily restricted net assets consisted of the following:

Bliss Brown Memorial Scholarship Fund	\$ 3,640
Equine Specialist Workshop Scholarship Fund	12,080
Horses for Heroes Fund	11,175
Margo O'Callaghan Competition Fund	3,398
NARHA Rider's Assistance Fund	63,625

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Notes To Financial Statements (continued)

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Pat Mullins National Conference Scholarship Fund	7,031
Regional Speakers Fund	6,094
Research Fund	4,445
Parents/Professional Guide Fund	6,000
	<u>\$ 117,488</u>

(10) **Employee Benefit Plan**

NARHA provides for a deferred compensation plan under Internal Revenue Code Section 408(p) which allows an employee to contribute up to \$11,500 of their annual compensation. NARHA provides a matching contribution of three percent (3%) of the employee's annual compensation. For the year ended June 30, 2011, NARHA contributed \$10,612 to the plan.

(11) **Accumulated Deficit And Management Plan**

As of June 30, 2011, NARHA has an accumulated unrestricted net asset deficit of \$93,153. The negative unrestricted net asset position is acknowledged by the Finance Committee. This resulted from two events of which NARHA was fully aware, a name change costing approximately \$50,000, and the hiring of a new CEO, resulting in costs of approximately \$50,000. Both events were approved by the Board of Directors and the Finance Committee in advance.

In both of these items, the Board voted to access our reserves to handle these two events. In doing so, it was agreed that the use of reserves would place NARHA in a short term disadvantage and could create a negative unrestricted net asset at June 30, 2011, which as we now know occurred. However, the Board determined that the new name would benefit NARHA by increasing membership, give better name recognition in both the equine and non-equine industry and has the potential to increase future funding to NARHA. This potential future funding is because the name is more in line with what we do as an organization and gives greater visibility of our purpose to funding organizations. Also, in hiring the CEO, who has a fund raising background and contacts in the equine industry, our organization will benefit from her expertise.

Going forward, NARHA is working to increase membership through launching a community's initiative, offering a new series of webinars that will benefit members and profit from NARHA that will show the value of their membership and has retained a grant writer to pursue specific funding for NARHA. From these activities, the Board believes revenue will increase without the corresponding increase in expenses, driving NARHA to ultimately offset the negative unrestricted net asset position in a three year period.

(12) **Subsequent Event**

Subsequent to the year ended June 30, 2011, NARHA changed its name to Professional Association of Therapeutic Horsemanship International® (PATH Int'l).

NORTH AMERICAN RIDING FOR THE HANDICAPPED ASSOCIATION, INC.

Supplemental Schedule Of Functional Expenses
For The Year Ended June 30, 2011

	Equine Assisted Activities	Fundraising	General and Administrative	Total
Salaries	\$ 500,030	\$ 63,844	\$ 165,387	\$ 729,261
Pension plan contributions	7,622	769	2,221	10,612
Employee benefits	55,330	4,259	11,911	71,500
Payroll taxes	43,257	6,266	14,718	64,241
	<u>606,239</u>	<u>75,138</u>	<u>194,237</u>	<u>875,614</u>
Grants	9,940			9,940
Professional fees	272,567	6,340	36,845	315,752
Supplies	8,355	429	2,826	11,610
Telephone	16,251	1,125	3,750	21,126
Postage and shipping	31,337	2,436	401	34,174
Occupancy	50,523	4,210	15,438	70,171
Equipment rental and maintenance	23,982	890	2,966	27,838
Printing and publications	68,610	7,292	2,336	78,238
Travel	73,854	18	97	73,969
Conferences, conventions, and meetings	394,954			394,954
Merchandise purchases	48,198			48,198
Depreciation	11,021	735	2,939	14,695
Other expenses	66,991	1,590	5,057	73,638
In-kind goods	8,400			8,400
Total	<u>\$ 1,691,222</u>	<u>\$ 100,203</u>	<u>\$ 266,892</u>	<u>\$ 2,058,317</u>