

CHAPS ACADEMY, INC.

Consolidated Financial Statements

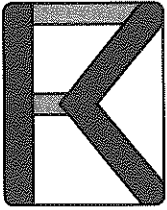
**For the Year Ended
December 31, 2010**

CHAPS ACADEMY, INC.

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KERBER, ROSE & ASSOCIATES, S.C.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Directors
CHAPS Academy, Inc.
Shiocton, Wisconsin

We have audited the accompanying consolidated statement of financial position of CHAPS Academy, Inc. (Organization) as of December 31, 2010, and the related consolidated statements of activities 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CHAPS Academy, Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Kerber, Rose & Associates, S.C.

KERBER, ROSE & ASSOCIATES, S.C.
Certified Public Accountants
December 12, 2011

FINANCIAL STATEMENTS

CHAPS ACADEMY, INC.
Consolidated Statement of Financial Position
As of December 31, 2010

ASSETS:

Cash	\$ 72,427
Pledges Receivable	162,333
Accounts Receivable	44,176
Prepaid Expenses	1,198
Property and Equipment, Net	996,162
Goodwill	233,919
Total Assets	<u>\$ 1,510,215</u>

LIABILITIES AND NET ASSETS:

Liabilities:

Accounts Payable	\$ 25,339
Accrued Expenses	15,270
Contract Payable to Former MCA Owner	15,000
Line of Credit	34,600
Mortgage	186,020
Total Liabilities	<u>276,229</u>

NET ASSETS:

Unrestricted	1,047,986
Temporarily Restricted	186,000
Total Net Assets	<u>1,233,986</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,510,215</u>
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CHAPS ACADEMY, INC.
Consolidated Statement of Activities
For the Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES:			
Contributions	\$ 843,766	\$ 319,899	\$ 1,163,665
Program Revenue	219,444	-	219,444
Special Events	41,562	-	41,562
Investment Income from MCA	5,954	-	5,954
Other	2,052	-	2,052
Net Assets Released from Restrictions	313,730	(313,730)	-
Total Revenues	<u>1,426,508</u>	<u>6,169</u>	<u>1,432,677</u>
EXPENSES:			
Compensation	299,552	-	299,552
Operations	30,554	-	30,554
Vehicle	789	-	789
Office	21,053	-	21,053
Professional	16,168	-	16,168
Depreciation	16,713	-	16,713
Insurance	16,955	-	16,955
Occupancy	26,818	-	26,818
Travel	1,775	-	1,775
Telephone	15,408	-	15,408
Special Events	12,190	-	12,190
Interest	18,245	-	18,245
Advertising	2,179	-	2,179
Other Operating Expenses	856	-	856
Total Expenses	<u>479,255</u>	<u>-</u>	<u>479,255</u>
CHANGE IN NET ASSETS	947,253	6,169	953,422
NET ASSETS - BEGINNING	<u>100,733</u>	<u>179,831</u>	<u>280,564</u>
NET ASSETS - ENDING	<u>\$ 1,047,986</u>	<u>\$ 186,000</u>	<u>\$ 1,233,986</u>

See Accompanying Notes

CHAPS ACADEMY, INC.
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:		\$ 953,422
Change in Net Assets		
Adjustments to Reconcile Change in Net Assets to		
Net Cash Flows From Operating Activities:		
Depreciation	16,713	
Gain on Sale of Equipment	(1,883)	
Income from MCA	(5,954)	
Contributed Property and Equipment	(696,253)	
Contributions Restricted for Long-Term Purposes	(318,054)	
Change in Certain Assets and Liabilities:		
Accounts Receivable	(44,176)	
Prepaid Expenses	832	
Accounts Payable	18,988	
Accrued Expenses	(6,732)	
Net Cash Flows from Operating Activities	(83,097)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Ownership Interest in MCA	(63,907)	
Cash Acquired From MCA Acquisition	10,275	
Proceeds From Sale of Equipment	3,100	
Purchase of Property and Equipment	(7,167)	
Net Cash Flows from Investing Activities	(57,699)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on Lines of Credit	(110,400)	
Payments on Long-Term Debt	(53,358)	
Collections on Contributions for Property	289,054	
Net Cash Flows from Financing Activities	125,296	
NET DECREASE IN CASH	(15,500)	
CASH - BEGINNING	87,927	
CASH - ENDING	\$ 72,427	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Interest	\$ 19,162	

See Accompanying Notes

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

This summary of significant accounting policies of CHAPS Academy, Inc. (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 the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

NATURE OF OPERATIONS

The consolidated financial statements include the accounts of CHAPS Academy, Inc. and Medical & Counseling Associates, LLC (Organization). All significant intercompany accounts and transactions have been eliminated.

CHAPS Academy, Inc. began operations in 2004. It is a not-for-profit corporation with a mission to serve children from the ages of four to eighteen and families dealing with emotional and behavioral difficulties through the use of equine-assisted activities. It empowers those they serve to achieve ongoing productivity and success within their home, at school, at work, and in the community. Medical & Counseling Associates, LLC (MCA) is a licensed mental health care organization serving children and their families.

FINANCIAL STATEMENT PRESENTATION

The Organization prepares its financial statements in conformity with accepted reporting practices for the not-for-profit industry. These practices state that net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

- Unrestricted Net Assets – assets of the Organization that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.
- Temporarily Restricted Net Assets – assets whose use by the Organization has been limited by donors to a specific time period or purpose. At December 31, 2010 temporarily restricted net assets consists of unspent contributions related to certain capital development activities. The Organization will release the restrictions as related expenditures are incurred.
- Permanently Restricted Net Assets - assets that have been restricted by donors to be maintained by the Organization in perpetuity. At December 31, 2010 the Organization had no permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

PLEDGES RECEIVABLE

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are satisfied in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost, or fair value if donated to the Organization, less accumulated depreciation. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets. Estimated useful lives of assets are as follows:

	<u>Years</u>
Buildings and Improvements	10 to 25
Equipment	5 to 7
Vehicles	7
Livestock	10

The cost of assets sold, retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of asset disposal. Any resulting gain or loss on disposal is recognized in that same year. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of an asset are capitalized.

INCOME TAXES

The Organization is a charitable organization under Section 501(c)(3) of the Internal Revenue Code, and thus is exempt from income taxes. Gifts, grants and bequests are deductible by donors within limitations of the Internal Revenue Code.

The Organization evaluates its tax positions based on whether or not the position is more likely than not to be sustained upon examination by taxing authorities. The Organization continually evaluates its tax positions, changes in tax law and new authoritative rulings for potential implications to its tax status. The Organization could potentially be subject to IRS audits for the tax years ending on or after December 31, 2007 and for Wisconsin for the years ending on or after December 31, 2006. The Organization has not identified any income it would consider to be unrelated business income.

INVESTMENT IN MEDICAL & COUNSELING ASSOCIATES, LLC (MCA)

The Organization accounted for its 45% ownership interest in MCA at the beginning of 2010 under the equity method of accounting until June 2010 when the Organization purchased the additional 55% ownership interest. Under the equity method, the investment in MCA was recorded at cost and was increased by the Organization's share of MCA net income and decreased by any distributions. As a result of the 100% ownership of MCA, the Organization recorded goodwill related to the excess of purchase price over the net assets acquired. Under generally accepted accounting principles, the carrying amount of goodwill is not amortized but is reduced if management determines that its implied fair value has been impaired.

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 certain reported amounts and disclosures. Accordingly, actual results may differ from these estimates.

SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 12, 2011, the date the financial statements were available to be issued.

CHAPS ACADEMY, INC.
Notes to Consolidated Financial Statements
December 31, 2010

NOTE 2 - PLEDGES RECEIVABLE:

The Organization started a capital campaign in prior years to raise funds for the construction and expansion of a new riding arena and office area. Construction on this project did not begin until 2010. Pledges receivable represent unconditional promises to give and are summarized as follows:

Amounts expected to be collected in:	
Less than one year	\$ 101,000
One to five years	61,333
Total	<u>\$ 162,333</u>

The Organization has determined that the discount to present value for pledges to be received subsequent to 2010 is immaterial to the financial statements as a whole and therefore, no discount has been recorded. Management considers promises to give to be fully collectible; accordingly, no allowance for uncollectible promises is required.

NOTE 3 - PROPERTY AND EQUIPMENT:

A summary of property and equipment at December 31, 2010 follows:

Land	\$ 34,115
Buildings and Improvements	954,658
Equipment	34,465
Vehicles	6,700
Livestock	1,977
Total Property and Equipment	<u>1,031,915</u>
Less: Accumulated Depreciation	<u>35,753</u>
Property and Equipment – Net	<u>\$ 996,162</u>

NOTE 4 - DEBT:

At December 31, 2010, the Organization had a mortgage with Associated Bank N.A. The agreement requires monthly payments of \$1,787 including interest at 6.05%. The mortgage is collateralized by real estate. The loan is due August 26, 2011. Subsequent to year end, the loan was renewed with an interest rate of 4.99% and is due August 2014.

The Organization also had a \$50,000 line of credit with Associated Bank N.A. at December 31, 2010. The line of credit had a balance of \$34,600 at December 31, 2010 with an interest rate based on the prime rate of 3.25%. The due date on the line of credit is May 31, 2013.

NOTE 5 - EXPENSE ALLOCATION:

The expenses of the Organization for the year ended December 31, 2010 are summarized on a functional basis as follows. Certain costs have been allocated among the program and supporting services benefited.

Program services	\$ 322,559
Management and general	131,483
Fundraising	<u>25,213</u>
Total Expenses	<u>\$ 479,255</u>