

PEPPERMINT RIDGE  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2005

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# *Guzman & Gray*

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Peppermint Ridge  
Corona, California

We have audited the accompanying consolidated statement of financial position of Peppermint Ridge (a nonprofit organization) as of December 31, 2005 and the related consolidated statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Peppermint Ridge'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 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 consolidated financial position of Peppermint Ridge as of December 31, 2005, and the consolidated 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.

***GUZMAN & GRAY***

Long Beach, California  
February 27, 2006

PEPPERMINT RIDGE  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2005

ASSETS

CURRENT ASSETS	
Cash	\$ 269,408
Contract receivables	556,135
Pledges receivable	176,919
Prepaid expenses	<u>26,893</u>
TOTAL CURRENT ASSETS	<u>1,029,355</u>
NET PROPERTY AND EQUIPMENT	<u>1,277,707</u>
OTHER ASSETS	
Investments	1,383,704
Deposits	43,017
Cash surrender value-insurance	11,802
Cash in trust	<u>25,127</u>
TOTAL OTHER ASSETS	<u>1,463,650</u>
TOTAL ASSETS	<u>\$3,770,712</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 245,451
Accrued expenses	229,294
Line of credit	66,000
Current portion of long-term debt	4,338
Current portion of capital lease obligations	<u>11,455</u>
TOTAL CURRENT LIABILITIES	<u>556,538</u>
LONG-TERM AND OTHER LIABILITIES	
Long-term debt, net of current portion	281,615
Capital lease obligations, net of current portion	13,404
Trust accounts	<u>25,127</u>
TOTAL LONG-TERM LIABILITIES	<u>320,146</u>
TOTAL LIABILITIES	<u>876,684</u>
NET ASSETS	
Unrestricted	1,543,255
Temporarily restricted	197,631
Permanently restricted	<u>1,153,142</u>
TOTAL NET ASSETS	<u>2,894,028</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$3,770,712</u>

See Independent Auditors' Report and Notes to Financial Statements

PEPPERMENT RIDGE  
CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUES</b>				
Program service fees	\$4,436,695			\$4,436,695
Contributions	288,253	\$ 228,555		516,808
Rent (HUD)	61,774			61,774
Investment return	94,277			94,277
Other	<u>13,043</u>			<u>13,043</u>
<b>TOTAL SUPPORT AND REVENUES</b>	<u>4,894,042</u>	<u>228,555</u>		<u>5,122,597</u>
<b>NET ASSETS RELEASED FROM RESTRICTION</b>				
	<u>111,666</u>	( <u>111,666</u> )		
	<u>5,005,708</u>	<u>116,889</u>		<u>5,122,597</u>
<b>EXPENSES</b>				
Program services	4,607,841			4,607,841
Management	458,490			458,490
Fund raising	<u>102,083</u>			<u>102,083</u>
	<u>5,168,414</u>			<u>5,168,414</u>
Increase (decrease) in Net assets	( 162,706 )	116,889		( 45,817 )
<b>NET ASSETS</b>				
Beginning of year	<u>1,705,961</u>	<u>80,742</u>	<u>1,153,142</u>	<u>2,939,845</u>
End of year	<u>\$1,543,255</u>	<u>\$ 197,631</u>	<u>\$1,153,142</u>	<u>\$2,894,028</u>

PEPPERMINT RIDGE  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Services</u>	<u>Management</u>	<u>Fund Raising</u>	<u>Total</u>
PERSONNEL				
Salaries/wages	\$2,524,222	\$ 230,315	\$ 51,311	\$2,805,848
Payroll taxes /benefits	890,315	59,749	19,389	969,453
Staff training/travel	<u>6,924</u>	<u>15,951</u>	<u>830</u>	<u>23,705</u>
 TOTAL PERSONNEL	 3,421,461	 306,015	 71,530	 3,799,006
 Food	 174,735			 174,735
Rents	31,807			31,807
Utilities	81,439	2,324		83,763
Supplies/maintenance	211,918	2,775	15,345	230,038
Telephone	32,200	3,325	633	36,158
Transportation	69,672			69,672
Program	58,590			58,590
Insurance	52,426	11,200		63,626
Office expense	11,359	4,569		15,928
Program consultants/ Professional fees	97,086	52,815	4,002	153,903
Quality assurance fees	205,385			205,385
Interest and bank charges	35,806	29,583		65,389
Dues/taxes/licenses		27,857		27,857
Miscellaneous		8,596		8,596
Fund raising	<u>                    </u>	<u>                    </u>	<u>9,226</u>	<u>9,226</u>
 Total expenses before depreciation	 4,483,884	 449,059	 100,736	 5,033,679
Depreciation expense	<u>123,957</u>	<u>9,431</u>	<u>1,347</u>	<u>134,735</u>
 TOTAL EXPENSES	 <u>\$4,607,841</u>	 <u>\$ 458,490</u>	 <u>\$ 102,083</u>	 <u>\$5,168,414</u>

PEPPERMINT RIDGE  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Decrease in net assets	(\$ 45,817)
Adjustment to reconcile the change in net assets to net cash Provided by (used in) operating activities	
Depreciation and amortization	134,735
Realized and unrealized gain on investments	( 58,710)
(Increase) decrease in:	
Contract pledge receivables	( 141,732)
Receivables	( 176,919)
Prepaid expenses	1,103
Deposits and other assets	( 6,816)
Increase (decrease) in:	
Accounts payable	96,739
Accrued expenses	<u>5,874</u>
Net cash provided by (used in) operating activities	<u>( 191,543)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of fixed assets	( 68,778)
Net investment outflow (inflow)	<u>53,567</u>
Net cash used in investing activities	<u>( 15,211)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Payments under capital lease obligations	( 9,677)
Repayment of long-term debt	( 3,956)
Line of credit	<u>66,000</u>
Net cash provided by financing activities	<u>52,367</u>
Net decrease in cash	( 154,387)
<b>CASH</b>	
Balance, beginning of year	<u>423,795</u>
Balance, end of year	<u>\$ 269,408</u>
<b>OTHER DISCLOSURES</b>	
Interest paid	\$ 35,806
Taxes paid	NONE

PEPPERMINT RIDGE  
NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2005

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Peppermint Range (a.k.a. the Ridge) is as nonprofit provider of high-quality care and training to individuals with special development needs. The Ridge operates ten licensed residences and two vendorized independent/supportive living skills programs in the Western Riverside County area. The majority of the Ridge's funding for services is derived from contracts with various Southern California Regional Centers and Medi-Cal. The Ridge's ability to continue to provide care at existing levels is contingent upon funding rates determined by these agencies.

Consolidated Financial Statements

The Ridge has a financial and operational relationship with an affiliated nonprofit organization, Garrison House Corporation. Garrison House Corporation was formed for the purpose of obtaining Department of Housing and Urban Development financing to construct a residence to expand the existing programs of the Ridge. Also, included in these financial statements is the financial activity of the Peppermint Ridge Auxiliary, which is a group dedicated to raising funds for the benefit of Peppermint Ridge. Intercompany transactions have been eliminated in the consolidated financial statements.

Estimates

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting policies employed in the preparation of financial statements. A description of the significant accounting policies employed in the preparation of these financial statements follows:

Financial Statement Presentation

The assets, liabilities and net assets of the Ridge are on the accrual basis reported in the following net asset groups:

*Unrestricted net assets* include resources that are not temporarily or permanently restricted by the donor and are available for operations of the Ridge without limitation. Restrictions met in same fiscal year are considered to be unrestricted.

*Temporarily restricted net assets* include those resources whose use is restricted by donor-imposed criteria that either expire with the passage of time or by actions of the Ridge.

*Permanently restricted net assets* include resources whose use is permanently restricted by donor-imposed criteria. The income derived from the restricted assets is expendable to support operations.

PEPPERMINT RIDGE  
NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2005

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted support. Gifts of marketable securities which are immediately sold are recorded at the amount received upon sale. Any difference between fair market value on date received and cash received upon sale is immaterial.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows the Ridge considers cash and certificates of deposit with a maturity of three months or less to be cash equivalents. Short term investments securities and cash in trust are not included.

Contract Receivables

Contract receivables are for program fees and are stated at the amount management expects to collect from outstanding balances. When necessary, management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. As of December 31, 2005, all balances are considered to be fully collectible. Changes in the valuation allowance have not been material to the financial statements.

Pledge Receivable

Pledges receivable represent amounts committed to the Ridge by outside organizations and individuals but not yet received as of December 31, 2005. No allowance for doubtful collections has been established as management believes the entire amount is fully collectible.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at their fair values in the statement of financial position. Unrealized gains and losses are included in the consolidated Statement of Activities.

Property and Equipment

The Organization capitalizes significant purchases of property and equipment expected to be utilized over more than one fiscal year. Purchased property and equipment are stated on the basis of cost and donated items are recorded at their current estimated fair market value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

PEPPERMINT RIDGE  
NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2005

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Materials and Services

Donated services are recognized in the financial statements if those services require specialized skills, are provided by individuals with those skills and would have been purchased had they not been provided by contribution. Significant non-cash contributions are reflected as contributions in the financial statements at their estimated value at date of donation.

Functional Expenses

The costs of providing services have been summarized on a functional basis in the Statement of Functional Expenses. Certain costs and expenditures have been allocated among program, management and general and development activities based on management's estimates.

Income Taxes

Peppermint Ridge and Garrison House are nonprofit California corporations exempt from income taxes under Internal Revenue Code Section 501(c)(3) and the California Revenue and Taxation Code Section 23701 (d) and are classified as other than private foundations.

NOTE 2 – CASH

The Ridge is required by conditions of a HUD loan to maintain a replacement reserve bank account balance. The required amount at December 31, 2005 of \$98,704 is not available for general operations.

NOTE 3 – INVESTMENTS

The Ridge's investments are held for a permanent endowment and a quasi-endowment fund. The quasi-endowment portion of investments consists of amounts designated by the board of directors for long-term investments and are included in unrestricted net assets. Investments consisted of the following at December 31, 2005:

	<u>Cost Basis</u>	<u>Fair Value</u>
Money market funds	\$ 50,317	\$ 50,317
Equity mutual funds	<u>1,256,538</u>	<u>1,333,387</u>
	<u>\$1,306,855</u>	<u>\$1,383,704</u>

Investment return consists of the following:

Interest and dividends	\$ 35,567
Realized capital gains	20,290
Unrealized capital gains	<u>38,420</u>
Total	<u>\$ 94,277</u>

PEPPERMINT RIDGE  
NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2005

NOTE 4 – PROPERTY AND EQUIPMENT

The composition of property and equipment follows:

Land and improvements	\$ 351,503
Buildings and improvements	1,935,152
Furniture and equipment	556,759
Vehicles	<u>352,811</u>
	3,196,225
Less accumulated depreciation and amortization	<u>( 1,918,518)</u>
	<u>\$1,277,707</u>

Depreciation was \$134,735 including amortization on capital assets of \$9,895.

NOTE 5 – LONG-TERM DEBT

The composition of long-term debt follows:

Trust deed note payable in monthly installments of \$2,551 including principal and interest at 9.25%; Matures August 2027; secured by the assets of Garrison House, including real property in the City of Corona	\$ 285,953
Less current portion	<u>( 4,338)</u>
Total long-term debt	<u>\$ 281,615</u>

As of December 31, 2005 the annual maturities of long-term debt for the succeeding years are as follows:

2006	\$ 4,388
2007	4,757
2008	5,216
2009	5,719
2010	6,272
Thereafter	<u>259,601</u>
	<u>\$285,953</u>

NOTE 6 – LINE OF CREDIT

The Ridge maintains a \$500,000 revolving line of credit, which expires in August 2006. Draws from the credit line may only be used for short-term operating needs. The line of credit accrues interest at a rate of 8.75%. There was a balance owing of \$66,000 at December 31, 2005.

PEPPERMINT RIDGE  
NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2005

NOTE 7 – CAPITAL LEASE OBLIGATIONS

The Ridge is the lessee of office equipment under capital leases expiring in various years through 2008. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Total cost of equipment under capital lease was \$49,482. Amortization of assets under capital lease is included in depreciation expense. Accumulated amortization on assets under capital lease was \$9,895.

Future minimum lease payments as of December 31, 2005 are as follows:

2006	\$ 14,849
2007	13,888
2008	<u>829</u>
	29,566
Amounts representing interest	( 4,707)
Present value of net minimum lease payments	24,859
Less current portion	<u>( 11,455)</u>
Long term portion	<u>\$ 13,404</u>

NOTE 8 – NET ASSETS

Temporarily restricted net assets consist of the following:

Contributions-time restricted	\$144,120
Contributions for programs	15,000
Contributions to client home funds	<u>38,511</u>
Total	<u>\$197,631</u>

Net assets released from donor restrictions by incurring expenses for the assistance and support of residents were \$111,666.

Permanently restricted net assets consist of endowment fund investments to be held in perpetuity. The income from endowment fund investments can be used for the general operations of the Ridge.

NOTE 9 – RETIREMENT PLAN

The Ridge has a salary reduction 403(b) plan whereby employees can elect to have a certain percentage of their salary contributed to the plan. The Ridge matches employee contributions up to two percent of their salaries on an individual basis. All contributions to the plan vest immediately. The Ridge's total pension expense for the year ended December 31, 2005 was \$13,932.

PEPPERMINT RIDGE  
NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2005

NOTE 10 – CONTINGENCIES AND CONCENTRATIONS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims including amounts already collected may constitute a liability of the Ridge. The amount, if any, of expenses which may be disallowed by the grantor is not determinable, although the Ridge expects such amounts, if any, to be immaterial.

Revenues from program fees consist of 87% of total revenues. Due to the nature of the services provided, management does not anticipate a disruption of this revenue.

The Ridge holds various licenses subject to review by various regulatory agencies. Management believes they are materially in compliance with all regulations.

The Ridge has concentrations of credit risk for cash because it maintains deposits in a financial institution, and the amounts of those deposits exceeds federally insured limits. However, management does not believe that this situation results in a significant risk.