

PEPPERMINT RIDGE

**Independent Auditor's Report
and Consolidated Financial Statements
For the Years Ended
December 31, 2017 and 2016**

PEPPERMINT RIDGE

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Peppermint Ridge
Corona, CA

We have audited the accompanying consolidated financial statements of Peppermint Ridge (the Ridge), a California nonprofit public benefit corporation, which comprise the consolidated statements of financial position as of December 31, 2017 and December 31, 2016, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Peppermint Ridge

Opinion

In our opinion, the consolidated financial statements referred to on page one present fairly, in all material respects, the financial position of the Ridge as of December 31, 2017 and December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Peppermint Ridge's December 31, 2016 financial statements were audited by Vicenti, Lloyd & Stutzman LLP, whose practice became part of CliftonLarsonAllen LLP as of June 1, 2017, and whose report dated March 16, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

CliftonLarsonAllen LLP
Glendora, CA
March 20, 2018

PEPPERMINT RIDGE

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,749,856	\$ 958,470
Contracts receivable	406,021	659,798
Pledges receivable	-	315,955
Grants receivable	-	64,000
Prepaid expenses and other assets	<u>104,822</u>	<u>101,267</u>
Total current assets	<u>2,260,699</u>	<u>2,099,490</u>
LONG-TERM ASSETS:		
Property and equipment, net	1,719,995	1,483,993
Endowment investments	1,425,112	1,263,880
Cash - HUD replacement reserve	78,181	104,051
Cash in trust	<u>20,889</u>	<u>18,223</u>
Total long-term assets	<u>3,244,177</u>	<u>2,870,147</u>
Total assets	<u>\$ 5,504,876</u>	<u>\$ 4,969,637</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	116,267	\$ 197,450
Accrued liabilities	326,550	302,460
Line of credit	-	78,000
Long-term debt - current	72,327	68,933
Mortgage payable - current	<u>13,114</u>	<u>11,959</u>
Total current liabilities	<u>528,258</u>	<u>658,802</u>
LONG-TERM LIABILITIES:		
Long-term debt, net of current portion	727,895	797,972
Mortgage payable, net of current portion	181,981	195,091
Trust accounts	<u>20,889</u>	<u>18,223</u>
Total long-term liabilities	<u>930,765</u>	<u>1,011,286</u>
NET ASSETS:		
Unrestricted	2,446,229	1,512,982
Temporarily restricted	409,592	596,535
Permanently restricted	<u>1,190,032</u>	<u>1,190,032</u>
Total net assets	<u>4,045,853</u>	<u>3,299,549</u>
Total liabilities and net assets	<u>\$ 5,504,876</u>	<u>\$ 4,969,637</u>

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

PEPPERMINT RIDGE

**CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND PUBLIC SUPPORT:				
Program service fees	6,847,027	\$ -	\$ -	\$ 6,847,027
Contributions	638,440	-	-	638,440
Special events, net	72,952	-	-	72,952
Net investment return	-	161,232	-	161,232
Other	<u>1,823</u>	<u>-</u>	<u>-</u>	<u>1,823</u>
Total revenues and public support	7,560,242	161,232	-	7,721,474
Net assets released from restriction	<u>348,175</u>	<u>(348,175)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>7,908,417</u>	<u>(186,943)</u>	<u>-</u>	<u>7,721,474</u>
EXPENSES:				
Program services	5,850,536	-	-	5,850,536
Management and general	901,369	-	-	901,369
Fundraising	<u>223,265</u>	<u>-</u>	<u>-</u>	<u>223,265</u>
Total expenses	<u>6,975,170</u>	<u>-</u>	<u>-</u>	<u>6,975,170</u>
Change in net assets	933,247	(186,943)	-	746,304
Beginning net assets	<u>1,512,982</u>	<u>596,535</u>	<u>1,190,032</u>	<u>3,299,549</u>
Ending net assets	<u>\$ 2,446,229</u>	<u>\$ 409,592</u>	<u>\$ 1,190,032</u>	<u>\$ 4,045,853</u>

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

PEPPERMINT RIDGE

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND PUBLIC SUPPORT:				
Program service fees	\$ 6,426,985	\$ -	\$ -	\$ 6,426,985
Contributions	529,956	489,736	26,390	1,046,082
Rent (HUD)	82,691	-	-	82,691
Special events, net	78,796	-	-	78,796
Net investment return	-	60,136	-	60,136
Other	14,160	-	-	14,160
Total revenues and public support	<u>7,132,588</u>	<u>549,872</u>	<u>26,390</u>	<u>7,708,850</u>
Net assets released from restriction	<u>124,624</u>	<u>(124,624)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>7,257,212</u>	<u>425,248</u>	<u>26,390</u>	<u>7,708,850</u>
EXPENSES:				
Program services	5,664,396	-	-	5,664,396
Management and general	955,987	-	-	955,987
Fundraising	131,116	-	-	131,116
Total expenses	<u>6,751,499</u>	<u>-</u>	<u>-</u>	<u>6,751,499</u>
Change in net assets	505,713	425,248	26,390	957,351
Beginning net assets	<u>1,007,269</u>	<u>171,287</u>	<u>1,163,642</u>	<u>2,342,198</u>
Ending net assets	<u>\$ 1,512,982</u>	<u>\$ 596,535</u>	<u>\$ 1,190,032</u>	<u>\$ 3,299,549</u>

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

PEPPERMINT RIDGE

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS from OPERATING ACTIVITIES:		
Change in net assets	\$ 746,304	\$ 957,351
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	144,206	142,990
Net realized and unrealized (gains) losses	(113,618)	(27,753)
Non-cash contributions	-	(26,600)
Change in operating assets:		
Contracts receivable	253,777	(211,754)
Pledges receivable	315,955	(264,001)
Grants receivable	64,000	(64,000)
Prepaid expenses and other assets	(3,555)	(9,033)
Cash - HUD replacement reserve	25,870	(8,930)
Cash in trust	(2,666)	(857)
Change in operating liabilities:		
Accounts payable	(81,183)	17,185
Accrued liabilities	24,090	37,445
Trust accounts	2,666	857
Net cash flows from operating activities	1,375,846	542,900
CASH FLOWS from INVESTING ACTIVITIES:		
Purchases of property and equipment	(380,208)	(79,812)
Purchase of investments	(308,577)	(460,580)
Proceeds from the sale of investments	260,963	487,453
Net cash flows from investing activities	(427,822)	(52,939)
CASH FLOWS from FINANCING ACTIVITIES:		
Net change in line of credit	(78,000)	(122,000)
Payment of notes payable	(66,683)	(61,600)
Payment of mortgage payable	(11,955)	(10,902)
Net cash flows from financing activities	(156,638)	(194,502)
Net change in cash and cash equivalents	791,386	295,459
Cash and cash equivalents at the beginning of the year	958,470	663,011
Cash and cash equivalents at the end of the year	\$ 1,749,856	\$ 958,470
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest during the fiscal year	\$ 60,751	\$ 69,394

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

PEPPERMINT RIDGE

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
PERSONNEL				
Salaries and wages	\$ 3,478,178	\$ 423,395	\$ 118,386	4,019,959
Payroll taxes and benefits	747,527	146,120	16,596	910,243
Staff training and travel	4,813	7,875	273	12,961
	<u>4,230,518</u>	<u>577,390</u>	<u>135,255</u>	<u>4,943,163</u>
EXPENSES				
Food	202,816	-	-	202,816
Rents	18,000	-	-	18,000
Utilities	89,240	18,603	188	108,031
Supplies and maintenance	123,884	1,759	-	125,643
Telephone	87,123	13,038	130	100,291
Transportation	128,278	-	-	128,278
Program	205,301	-	-	205,301
Insurance expense	78,199	15,709	949	94,857
Office expenses	63,035	40,630	23,553	127,218
Program consultants and professional fees	108,843	169,337	60,523	338,703
Quality assurance fees	310,330	-	-	310,330
Interest and bank charges	51,595	8,686	470	60,751
Dues, taxes, and licenses	50,988	15,839	755	67,582
	<u>1,517,632</u>	<u>283,601</u>	<u>86,568</u>	<u>1,887,801</u>
TOTAL EXPENSES BEFORE DEPRECIATION	<u>5,748,150</u>	<u>860,991</u>	<u>221,823</u>	<u>6,830,964</u>
Depreciation expense	<u>102,386</u>	<u>40,378</u>	<u>1,442</u>	<u>144,206</u>
TOTAL EXPENSES	<u>\$ 5,850,536</u>	<u>\$ 901,369</u>	<u>\$ 223,265</u>	<u>\$ 6,975,170</u>

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

PEPPERMINT RIDGE

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016**

	Program Services	Management and General	Fundraising	Total Expenses
PERSONNEL				
Salaries and wages	\$ 3,319,859	\$ 512,665	\$ 88,606	\$ 3,921,130
Payroll taxes and benefits	748,598	189,840	1,495	939,933
Staff training and travel	9,082	6,509	705	16,296
	<u>4,077,539</u>	<u>709,014</u>	<u>90,806</u>	<u>4,877,359</u>
EXPENSES				
Food	203,018	-	-	203,018
Rents	16,500	-	-	16,500
Utilities	86,725	18,549	1,093	106,367
Supplies and maintenance	66,559	13,617	-	80,176
Telephone	86,111	12,166	1,358	99,635
Transportation	112,674	-	-	112,674
Program	254,687	-	-	254,687
Insurance expense	81,662	15,089	848	97,599
Office expenses	18,630	68,067	18,803	105,500
Program consultants and professional fees	205,551	56,620	4,620	266,791
Quality assurance fees	223,592	-	-	223,592
Interest and bank charges	58,241	11,584	561	70,386
Dues, taxes, and licenses	72,978	9,898	11,349	94,225
	<u>1,486,928</u>	<u>205,590</u>	<u>38,632</u>	<u>1,731,150</u>
TOTAL EXPENSES BEFORE DEPRECIATION	<u>5,564,467</u>	<u>914,604</u>	<u>129,438</u>	<u>6,608,509</u>
Depreciation expense	<u>99,929</u>	<u>41,383</u>	<u>1,678</u>	<u>142,990</u>
TOTAL EXPENSES	<u>\$ 5,664,396</u>	<u>\$ 955,987</u>	<u>\$ 131,116</u>	<u>\$ 6,751,499</u>

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

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

NOTE 1: ORGANIZATION

Nature of Activities – Peppermint Ridge (a.k.a. the Ridge) is a nonprofit provider of high-quality care and training to individuals with special development needs. The Ridge operates eleven licensed residences and two 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. Intercompany transactions have been eliminated in the Consolidated Financial Statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board.

Basis of Accounting – The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

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, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

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

Cash and Cash Equivalents – The Ridge defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

Contracts Receivable – Contracts receivable 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.

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pledges Receivable – Pledges receivable represent amounts committed to the Ridge by outside organizations and individuals but not yet received as of December 31, 2017 and 2016. No allowance for doubtful collections has been established as management believes the entire amount is fully collectible. All amounts are expected to be received in the next fiscal period therefore all amounts are recorded at net realizable value which approximates fair value.

Investments – Investments are recorded at fair market value. Both unrealized gains and losses from the fluctuation of market value and realized gains and losses from the sale of investments are reflected in the statements of activities if they are material.

Property and Equipment – The Ridge 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. Additions and improvements that increase the capacity or lengthen the useful lives of the assets are capitalized. Repairs and maintenance are expensed as incurred.

Net Asset Classes – The Ridge is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets of the Ridge are defined as:

- **Unrestricted:** All resources over which the governing board has discretionary control to use in carrying on the general operations of the Ridge.
- **Temporarily restricted:** These net assets are restricted by donors to be used for specific purposes.
- **Permanently restricted:** These net assets are permanently restricted by donors and cannot be used by the Ridge.

Donated Services and Goods – The contribution of services are recognized if the services received require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services that do not meet the criteria shall not be recognized.

Donated goods 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 goods to a specific purpose.

Grant Revenue – Grant revenues earned, but not yet received, are recorded as receivables, and grant funds received before the revenue recognition criteria have been met are reported as refundable advances. No allowance for doubtful collections has been established as management believes the entire amount is fully collectible. Grant expenditures are recorded when the liability is incurred.

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Compensated Absences – Accumulated unpaid employee vacation benefits are recognized as a liability of the Ridge. The current portion of the liability, if material, is recognized at year-end. Employees of the Ridge are paid for days or hours worked based upon schedules which include vacation.

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unrestricted revenue. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair market value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Exempt Organization Status – 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 organizations. Income for certain activities not directly related the Ridge's tax-exempt purpose is subject to taxation as unrelated business income.

The Ridge recognizes the financial statement benefit of tax positions, such as filing status of tax exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Ridge is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Evaluation of Subsequent Events – The Ridge has evaluated subsequent events through March 20, 2018, the date these financial statements were available to be issued.

NOTE 3: CONCENTRATION OF CREDIT RISK

The Ridge maintains cash balances held in banks which are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. The Ridge has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

NOTE 4: CASH – HUD REPLACEMENT RESERVE

The Ridge is required by conditions of a loan agreement with the Department of Housing and Urban Development to maintain a replacement reserve bank account balance. As of December 31, 2017 and 2016, the required amounts not available for general operations were \$78,181 and \$104,051, respectively.

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

NOTE 5: CASH IN TRUST

The Ridge maintains certain funds as an agent for the program participants to make purchases. All transactions are subject to the accounting policies of the Ridge. As of December 31, 2017 and 2016, the amounts held in trust amounted to \$20,889 and \$18,223, respectively.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment in the accompanying financial statements is presented net of accumulated depreciation. The Ridge capitalizes all expenditures for land, buildings and equipment in excess of \$1,000. Depreciation expense was \$144,206 and \$142,990 for the years ended December 31, 2017 and 2016, respectively.

The components of property and equipment as of December 31, are as follows:

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 627,252	\$ 627,252
Buildings and improvements	2,881,389	2,708,681
Furniture and equipment	793,105	755,559
Vehicles	791,374	621,419
	<u>5,093,120</u>	<u>4,712,911</u>
Less accumulated depreciation and amortization	<u>(3,373,125)</u>	<u>(3,228,918)</u>
Property and equipment, net	<u>\$ 1,719,995</u>	<u>\$ 1,483,993</u>

NOTE 7: FAIR VALUE MEASUREMENTS

Accounting standards emphasizes that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair market value measurements, accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to level 1 inputs.
- Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data are available. The fair value hierarchy gives lowest priority to level 3 inputs.

PEPPERMINT RIDGE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

NOTE 7: FAIR VALUE MEASUREMENTS

The carrying values of investment assets are as follows:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,828,037	\$ -	\$ -	\$ 1,828,037
Mutual fund investments	1,425,112	-	-	1,425,112
	<u>\$ 3,253,149</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,253,149</u>

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,062,521	\$ -	\$ -	\$ 1,062,521
Mutual fund investments	1,263,880	-	-	1,263,880
	<u>\$ 2,326,401</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,326,401</u>

The carrying value of accounts receivables, other assets, accounts payable, accrued expenses are reasonable estimates of fair value due to the short term nature of these financial instruments and consequently, these instruments are not presented in the table shown above.

For the years ended December 31, 2017 and 2016, the assets are presented on the Consolidated Statements of Financial Position as follows:

	December 31,	
	2017	2016
Cash and cash equivalents	\$ 1,749,856	\$ 958,470
Endowment investments	1,425,112	1,263,880
Cash - HUD replacement reserve	78,181	104,051
	<u>\$ 3,253,149</u>	<u>\$ 2,326,401</u>

NOTE 8: ENDOWMENT 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 purposes and is included in unrestricted net assets. As of December 31, 2017 and 2016, the Ridge does not have any quasi-endowment funds.

PEPPERMINT RIDGE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

NOTE 8: ENDOWMENT INVESTMENTS

For the year ended December 31, 2017, endowment investments consisted of the following:

	Cost Basis	Fair Value
Mutual funds and equity investments	\$ 1,302,829	\$ 1,425,112

For the year ended December 31, 2016, endowment investments consisted of the following:

	Cost Basis	Fair Value
Mutual funds and equity investments	\$ 1,276,636	\$ 1,263,880

For the years ended December 31, 2017 and 2016, earnings from investments consisted of the following:

	December 31,	
	2017	2016
Interest and dividends	\$ 59,516	\$ 43,593
Net realized gains (losses)	(21,211)	(38,750)
Net unrealized gains (losses)	135,265	66,503
Investment fees	(11,906)	(11,210)
Net investment return	\$ 161,664	\$ 60,136

NOTE 9: ENDOWMENT FUND

General Board Policy on Administration of Endowment Funds

The Board of Directors of the Ridge has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, of this interpretation, the Ridge classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted and appropriated for expenditure by the Ridge in a manner consistent with the standard of prudence prescribed by UPMIFA.

PEPPERMINT RIDGE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

NOTE 9: ENDOWMENT FUND

Management and oversight of the Endowment Fund shall be the responsibility of the Endowment Committee (EC). The EC shall be made up of the Finance Committee of the Peppermint Ridge Board of Directors and at least one qualified professional financial advisor selected by the Committee. The EC shall be responsible for establishing and maintaining an asset allocation strategy that is appropriate to achieve the fund's investment objectives; for maintaining and revising this MIPS; for selecting a financial institution to become the day to day Investment Manager (IM) of the fund's assets; for monitoring the performance of the IM and his investment selections; for having quarterly reviews of the fund's performance with the IM; for voting promptly on all proxies and related actions in a manner consistent with fund objectives; and for making a yearly recommendation to the Board of Directors as to the amount of the annual distribution of fund assets to the Ridge.

Investment Policies and objectives

The Ridge has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment assets while also maintaining the purchasing power of those endowment assets over the long-term.

The primary investment objective of the Fund is to maximize current income with a secondary objective of growing the principal to maintain and enhance its purchasing power. To achieve these objectives the Fund's assets shall be invested at a nominal ratio of 55% equities/45% fixed income by dollar value. The ratio of equities to fixed income investments can be adjusted depending on economic and market conditions but the maximum exposure to equities shall not exceed 65% of the portfolio.

The performance of the portfolio shall be reviewed quarterly and at year end. It is the investment goal of the portfolio that the combined equity investments exceed the performance of the S&P 500 index and the combined fixed income investments exceed the Barclays Capital Aggregated Bond index. The combined equity and fixed income gross annual rate of return of the portfolio, averaged over five years, should exceed 8 percent.

Risk Tolerance

The assets of the Fund shall be invested along the risk tolerance lines of a moderately conservative to conservative portfolio. While it is realized that to maximize current income and to increase the purchasing power of the principal some exposure to risk and volatility is required, it is important to protect the principal in the fund and high risk speculative investments shall be avoided. Short sales, margin trading, and trading in options are not allowed.

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

NOTE 9: ENDOWMENT FUND

Allowable Investments

All investments shall be liquid, capable of being bought and sold on a daily basis on listed exchanges. Mutual funds (MF), Closed End funds (CEF) and Exchange Traded Funds (ETF) are considered to satisfy this requirement. Eligible securities include domestic equities bought individually or through MFs, CEFs or ETFs; international equities bought through MFs, CEFs or ETFs; preferred stocks bought individually or through MFs or CEFs; domestic corporate bonds and commercial paper bought individually or through MFs or CEFs; US Treasury bonds; insured CDs; and money market funds.

Spending Policy for Endowment Funds

At the annual review of the Endowment Fund investment performance, the Endowment Committee will recommend to the Board of Directors the amount of the distribution that the Fund can make to Peppermint Ridge. As a minimum, the Fund will distribute to Peppermint Ridge all of the income received, but not including any capital gains. In years in which the Fund has done particularly well in terms of capital gains, the Endowment Committee may recommend a distribution that includes the income and a portion of the capital gains. In such years the combined distribution shall not exceed 7% of the value of the Fund, and shall not reduce the value of the Fund below the value at the beginning of the year.

Loans

The Endowment Fund is permitted to make loans to Peppermint Ridge as long as the loan does not exceed 35% of the value of the Fund. The maximum term of the loan is one year, and only one loan can be active at any one time. The interest on the loan shall be the same as the interest paid by the government on the US Treasury 10 year bond at the time the loan is authorized. Any interest paid by Peppermint Ridge to the Endowment Fund under the terms of a loan will not be available for distribution back to Peppermint Ridge at the end of the year. To secure a loan from the Endowment Fund, Peppermint Ridge must submit a request in writing indicating the amount and the repayment plan. The request will be reviewed by the Endowment Committee, and upon concurrence of the Committee, the Committee will present the request, including the planned liquidation of securities to raise the needed funds, to the Board of Directors for final approval. The funds will be delivered to Peppermint Ridge within 10 days from final approval.

PEPPERMINT RIDGE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

NOTE 9: ENDOWMENT FUND

For the year ended December 31, 2017, net changes in the endowment funds were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning endowment assets	\$ -	\$ 73,848	\$ 1,190,032	\$ 1,263,880
Investment return				
Investment income, net of fees		47,614	-	47,614
Net gain (loss)	-	113,618	-	113,618
Total return	-	161,232	-	161,232
Ending endowment assets	<u>\$ -</u>	<u>\$ 235,080</u>	<u>\$ 1,190,032</u>	<u>\$ 1,425,112</u>

For the year ended December 31, 2016, net changes in the endowment funds were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning endowment assets	\$ -	\$ 72,758	\$ 1,163,642	\$ 1,236,400
Contributions	-	-	26,390	26,390
Investment return				
Investment income, net of fees	-	32,383	-	32,383
Net gain (loss)	-	27,753	-	27,753
Total return	-	60,136	-	60,136
Other Changes				
Transfer in (out)	-	(59,046)	-	(59,046)
Ending endowment assets	<u>\$ -</u>	<u>\$ 73,848</u>	<u>\$ 1,190,032</u>	<u>\$ 1,263,880</u>

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Ridge to retain as a fund of perpetual duration. A deficiency of this nature, which is reported in temporarily restricted net assets. As of December 31, 2017 and December 31, 2016 there are no deficient endowments.

NOTE 10: LONG-TERM DEBT

The Ridge entered into a debt agreement with First Citizen Bank. The agreement requires monthly installments of \$8,834, which includes principal and interest at 4.75%. The note matures in May 2027, and is secured by real property. The outstanding balance as of December 31, 2017 is \$800,222.

PEPPERMINT RIDGE

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

NOTE 10: LONG-TERM DEBT

Future maturities of notes payable are as follows:

<u>Year Ended December 31,</u>	
2018	72,327
2019	75,800
2020	79,621
2021	83,541
2022	87,654
Thereafter	<u>401,279</u>
Total	<u>\$ 800,222</u>

The Ridge entered into a debt agreement with First Citizen Bank. The agreement requires monthly installments of \$2,551, which includes principal and interest at 9.25%. The note matures in August 2027, and is secured by the real property assets of Garrison House. The outstanding balance as of December 31, 2017 is \$195,095.

Future maturities of mortgages payable are as follows:

<u>Year Ended December 31,</u>	
2018	13,114
2019	14,379
2020	15,767
2021	17,289
2022	11,654
Thereafter	<u>122,892</u>
Total	<u>\$ 195,095</u>

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2017 and 2016

NOTE 11: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets balances at year-end consist of the following:

	December 31,	
	2017	2016
Department of Transportation	\$ 115,000	\$ 115,000
Pledges	-	315,955
Temporarily restricted endowment assets	235,080	73,848
Education and Recreation Center	-	22,220
Wynn Home	-	10,000
Contributions to client home funds	59,512	59,512
Total temporarily restricted net assets	<u>\$ 409,592</u>	<u>\$ 596,535</u>

For the years ended December 31, 2017 and 2016, net assets released from donor restrictions by incurring expenses and making capital improvements for the assistance and support of residents were \$348,175 and \$65,578, respectively. Additionally, during the years ended December 31, 2017 and 2016, temporarily restricted endowment earnings of \$0 and \$59,046 were encumbered and released from restriction, respectively.

NOTE 12: CONTINGENCIES

The Ridge operates in Southern California and is subject to fluctuations in the local economy, which could impact contributions, specifically grants and donations.

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 granter is not determinable, although the Ridge expects such amounts, if any, to be immaterial.

For the years ended December 31, 2017 and 2016, revenues from program fees make up a significant portion of total revenues. Due to the nature of the services provided, management anticipates revenues may be affected by legislative and legal developments related to State of California and Medi-Cal rate reimbursement policies.

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