

PEPPERMINT RIDGE

**Independent Auditors' Report
and Consolidated Financial Statements
For the Years Ended
December 31, 2018 and 2017**



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PEPPERMINT RIDGE

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INDEPENDENT AUDITORS' 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, 2018 and 2017 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.

Auditors' 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 auditors' 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, 2018 and 2017 and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP
Glendora, CA
June 18, 2019

PEPPERMINT RIDGE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	2018	2017
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,248,809	\$ 1,749,856
Contracts receivable	464,582	406,021
Pledges receivable	124,700	-
Grants receivable	718,302	-
Prepaid expenses and other assets	138,656	104,822
Total current assets	3,695,049	2,260,699
LONG-TERM ASSETS:		
Property and equipment, net	1,866,032	1,719,995
Endowment investments	1,328,132	1,425,112
Cash - HUD replacement reserve	88,571	78,181
Cash in trust	23,044	20,889
Total long-term assets	3,305,779	3,244,177
Total assets	\$ 7,000,828	\$ 5,504,876
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 260,380	\$ 116,267
Accrued liabilities	368,412	326,550
Deferred revenue	12,110	-
Long-term debt - current	72,327	72,327
Mortgage payable - current	14,379	13,114
Total current liabilities	727,608	528,258
LONG-TERM LIABILITIES:		
Long-term debt, net of current portion	658,913	727,895
Mortgage payable, net of current portion	167,608	181,981
Trust accounts	23,044	20,889
Total long-term liabilities	849,565	930,765
NET ASSETS:		
Without Donor Restriction	3,084,395	2,446,229
With Donor Restriction	2,339,260	1,599,624
Total net assets	5,423,655	4,045,853
Total liabilities and net assets	\$ 7,000,828	\$ 5,504,876

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

PEPPERMINT RIDGE

**CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018**

	Without Donor Restriction	With Donor Restriction	Total
REVENUES AND PUBLIC SUPPORT:			
Program service fees	\$ 7,133,767	\$ -	\$ 7,133,767
Contributions	594,386	948,896	1,543,282
Rent (HUD)	85,608	-	85,608
Special events, net	105,831	-	105,831
Net investment return	775	(96,980)	(96,205)
Other	21,494	-	21,494
Total revenues and public support	7,941,861	851,916	8,793,777
Net assets released from restriction	112,280	(112,280)	-
Total revenues	8,054,141	739,636	8,793,777
EXPENSES:			
Program services	6,299,985	-	6,299,985
Management and general	925,006	-	925,006
Fundraising	190,984	-	190,984
Total expenses	7,415,975	-	7,415,975
Change in net assets	638,166	739,636	1,377,802
Beginning net assets	2,446,229	1,599,624	4,045,853
Ending net assets	\$ 3,084,395	\$ 2,339,260	\$ 5,423,655

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

PEPPERMINT RIDGE

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

	Without Donor Restriction	With Donor Restriction	Total
REVENUES AND PUBLIC SUPPORT:			
Program service fees	\$ 6,779,224	\$ -	\$ 6,779,224
Contributions	638,440	-	638,440
Rent (HUD)	67,803	-	67,803
Special events, net	72,952	-	72,952
Net investment return	-	161,232	161,232
Other	1,823	-	1,823
Total revenues and public support	7,560,242	161,232	7,721,474
Net assets released from restriction	348,175	(348,175)	-
Total revenues	7,908,417	(186,943)	7,721,474
EXPENSES:			
Program services	5,850,536	-	5,850,536
Management and general	901,369	-	901,369
Fundraising	223,265	-	223,265
Total expenses	6,975,170	-	6,975,170
Change in net assets	933,247	(186,943)	746,304
Beginning net assets	1,512,982	1,786,567	3,299,549
Ending net assets	\$ 2,446,229	\$ 1,599,624	\$ 4,045,853

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

PEPPERMINT RIDGE

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS from OPERATING ACTIVITIES:		
Change in net assets	\$ 1,377,802	\$ 746,304
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	175,518	144,206
Net realized and unrealized losses (gains)	134,788	(113,618)
Change in operating assets:		
Contracts receivable	(58,561)	253,777
Pledges receivable	(124,700)	315,955
Grants receivable	(718,302)	64,000
Prepaid expenses and other assets	(33,834)	(3,555)
Cash - HUD replacement reserve	(10,390)	25,870
Cash in trust	(2,155)	(2,666)
Change in operating liabilities:		
Accounts payable	144,113	(81,183)
Deferred revenue	12,110	-
Accrued liabilities	41,862	24,090
Trust accounts	2,155	2,666
Net cash flows from operating activities	940,406	1,375,846
CASH FLOWS from INVESTING ACTIVITIES:		
Purchases of property and equipment	(321,555)	(380,208)
Purchase of investments	(1,084,702)	(308,577)
Proceeds from the sale of investments	1,046,894	260,963
Net cash flows from investing activities	(359,363)	(427,822)
CASH FLOWS from FINANCING ACTIVITIES:		
Net change in line of credit	-	(78,000)
Payment of notes payable	(68,982)	(66,683)
Payment of mortgage payable	(13,108)	(11,955)
Net cash flows from financing activities	(82,090)	(156,638)
Change in cash and cash equivalents	498,953	791,386
Cash and cash equivalents, beginning of the year	1,749,856	958,470
Cash and cash equivalents, end of the year	\$ 2,248,809	\$ 1,749,856
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest during the fiscal year	\$ 54,710	\$ 60,751

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

PEPPERMINT RIDGE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Program Services	Management and General	Fundraising	Total Expenses
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
PERSONNEL				
Salaries and wages	\$ 3,901,359	\$ 473,095	\$ 110,438	\$ 4,484,892
Payroll taxes and benefits	734,791	164,239	12,670	911,700
Staff training and travel	11,274	7,406	620	19,300
	<u>4,647,424</u>	<u>644,740</u>	<u>123,728</u>	<u>5,415,892</u>
 EXPENSES				
Food	204,326	-	-	204,326
Rents	18,000	-	-	18,000
Utilities	101,047	7,949	190	109,186
Supplies and maintenance	84,734	5,290	-	90,024
Telephone	74,465	18,263	911	93,639
Transportation	114,556	-	-	114,556
Program	233,118	-	-	233,118
Insurance expense	91,174	18,372	1,094	110,640
Office expenses	22,006	66,695	26,735	115,436
Program consultants and professional fees	167,985	112,116	35,552	315,653
Quality assurance fees	274,172	-	-	274,172
Interest and bank charges	48,116	6,224	370	54,710
Dues, taxes, and licenses	80,105	9,690	1,310	91,105
	<u>1,513,804</u>	<u>244,599</u>	<u>66,162</u>	<u>1,824,565</u>
 TOTAL EXPENSES BEFORE DEPRECIATION	 <u>6,161,228</u>	 <u>889,339</u>	 <u>189,890</u>	 <u>7,240,457</u>
 Depreciation expense	 <u>138,757</u>	 <u>35,667</u>	 <u>1,094</u>	 <u>175,518</u>
 TOTAL EXPENSES	 <u>\$ 6,299,985</u>	 <u>\$ 925,006</u>	 <u>\$ 190,984</u>	 <u>\$ 7,415,975</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, 2017

	Program Services	Management and General	Fundraising	Total Expenses
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
	4,230,518	577,390	135,255	4,943,163
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
	1,517,632	283,601	86,568	1,887,801
TOTAL EXPENSES BEFORE DEPRECIATION	5,748,150	860,991	221,823	6,830,964
Depreciation expense	102,386	40,378	1,442	144,206
TOTAL EXPENSES	\$ 5,850,536	\$ 901,369	\$ 223,265	\$ 6,975,170

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, 2018 and 2017

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

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

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 reported on a functional basis in the Consolidated Statements of Functional Expenses. When costs of providing services cannot directly be assigned to a functional category, an allocation is made based on estimates. The expenses that are allocated include utilities; depreciation; interest; dues, taxes and licenses; and insurance, which are allocated on a square-footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

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. There were no allowances as of December 31, 2018 and 2017.

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2018 and 2017

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, 2018 and 2017. 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 value. Certificates of Deposit are recorded at cost. Both unrealized gains and losses from the fluctuation of fair 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 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 - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 net assets without donor restriction unless the donor has restricted the donated goods to a specific purpose.

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2018 and 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 collectable. Grant expenditures are recorded when the liability is incurred.

Compensated Absences – Accumulated unpaid employee vacation benefits are recognized as a liability of the Ridge.

Contributions – All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as contributions with donor restrictions. Restricted contributions that are received and released in the same period are reported as promises to give without donor restrictions. 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 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.

Change in Accounting Principle – On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Ridge has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly and the liquidity disclosure is only for 2018.

Evaluation of Subsequent Events – The Ridge has evaluated subsequent events through June 18, 2019, the date these financial statements were available to be issued.

NOTE 3: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date. Financial assets available for general expenditures comprise cash and cash equivalents, contracts receivable, pledges receivable and grants receivable for the total amount of \$2,545,265.

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2018 and 2017

NOTE 4: 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 5: 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, 2018 and 2017, the required amounts not available for general operations were \$88,571 and \$78,181, respectively.

NOTE 6: 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, 2018 and 2017, the amounts held in trust amounted to \$23,044 and \$20,889, respectively.

NOTE 7: 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 \$175,518 and \$144,206 for the years ended December 31, 2018 and 2017, respectively.

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

	2018	2017
Land and improvements	\$ 627,252	\$ 627,252
Buildings and improvements	3,158,711	2,881,389
Furniture and equipment	837,338	793,105
Vehicles	791,374	791,374
	<u>5,414,675</u>	<u>5,093,120</u>
Less accumulated depreciation	<u>(3,548,643)</u>	<u>(3,373,125)</u>
Property and equipment, net	<u>\$ 1,866,032</u>	<u>\$ 1,719,995</u>

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 8: 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 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.

The carrying values of investment assets are as follows:

	December 31, 2018			Total
	Level 1	Level 2	Level 3	
Fixed income mutual funds	\$ 267,464			\$ 267,464
Equity mutual and exchange				
traded funds	749,704	-	-	749,704
Total investments at fair value	\$ 1,017,168	\$ -	\$ -	1,017,168
Certificates of Deposit				301,297
Cash and cash equivalents				9,667
Total endowment investments				\$ 1,328,132
	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Fixed income mutual funds	\$ 468,960	\$ -	\$ -	\$ 468,960
Equity mutual and exchange				
traded funds	951,140	-	-	951,140
Total investments at fair value	\$ 1,420,100	\$ -	\$ -	1,420,100
Cash and cash equivalents				5,012
Total endowment investments				\$ 1,425,112

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 8: FAIR VALUE MEASUREMENTS

For the years ended December 31, 2018 and 2017, the assets are presented on the Consolidated Statements of Financial Position as follows:

	December 31,	
	2018	2017
Cash and cash equivalents	\$ 2,248,809	\$ 1,749,856
Endowment investments	1,328,132	1,425,112
Cash - HUD replacement reserve	88,571	78,181
	<u>\$ 3,665,512</u>	<u>\$ 3,253,149</u>

NOTE 9: ENDOWMENT INVESTMENTS

The Ridge's investments are held for an endowment with donor restriction and a quasi-endowment fund (without donor restriction). The quasi-endowment portion of investments consists of amounts designated by the board of directors for long-term purposes and is included in net assets without donor restriction. As of December 31, 2018 and 2017, the Ridge does not have any quasi-endowment funds.

For the year ended December 31, 2018, endowment investments consisted of the following:

	<u>Fair Value</u>
Mutual funds and equity investments	\$ 1,328,132

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

	<u>Fair Value</u>
Mutual funds and equity investments	\$ 1,425,112

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 9: ENDOWMENT INVESTMENTS

For the years ended December 31, 2018 and 2017, earnings from investments consisted of the following:

	December 31,	
	2018	2017
Interest and dividends	\$ 49,875	\$ 59,516
Net realized gains (losses)	51,064	(21,211)
Net unrealized gains (losses)	(185,852)	134,833
Investment fees	(11,292)	(11,906)
Net investment return	<u>\$ (96,205)</u>	<u>\$ 161,232</u>

NOTE 10: 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 net assets with donor restriction (a) the original value of gifts donated to the endowment with donor restriction, (b) the original value of subsequent gifts donated to the endowment with donor restriction, and (c) accumulations to the endowment with donor restriction 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 net assets with donor restriction is classified as without donor restriction and appropriated for expenditure by the Ridge in a manner consistent with the standard of prudence prescribed by UPMIFA.

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.

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2018 and 2017

NOTE 10: ENDOWMENT FUND

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.

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.

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.

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 10: ENDOWMENT FUND

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.

For the year ended December 31, 2018, net changes in the endowment funds were as follows:

	Without Donor Restriction	With Donor Restriction	Total
Beginning endowment assets	\$ -	\$ 1,425,112	\$ 1,425,112
Investment return			
Investment income, net of fees	-	37,804	37,804
Net gain (loss)	-	(134,784)	(134,784)
Total return	-	(96,980)	(96,980)
Other Changes			
Transfer in (out)	-	-	-
Ending endowment assets	<u>\$ -</u>	<u>\$ 1,328,132</u>	<u>\$ 1,328,132</u>

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

	Without Donor Restriction	With Donor Restriction	Total
Beginning endowment assets	\$ -	\$ 1,263,880	\$ 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>\$ 1,425,112</u>	<u>\$ 1,425,112</u>

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2018 and 2017

NOTE 10: ENDOWMENT FUND

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 net assets without donor restriction. As of December 31, 2018 and December 31, 2017 there are no deficient endowments.

NOTE 11: LINE OF CREDIT

The Ridge has a \$700,000 revolving line of credit with First Citizens Bank, secured by accounts receivable. Borrowings under the line bear interest at the bank's prime rate of 6.00%. Accrued interest and principal are due at maturity August 25, 2022. The outstanding balance as of December 31, 2018 is \$0.

NOTE 12: 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, 2018 is \$731,240.

Future maturities of notes payable are as follows:

Year Ended December 31,	
2019	\$ 72,327
2020	75,800
2021	79,621
2022	83,541
2023	87,654
Thereafter	<u>332,297</u>
Total	<u>\$ 731,240</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, 2018 is \$181,987.

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 12: LONG-TERM DEBT

Future maturities of mortgages payable are as follows:

Year Ended December 31,	
2019	\$ 14,379
2020	15,767
2021	17,289
2022	18,958
2023	20,788
Thereafter	<u>94,806</u>
Total	<u>\$ 181,987</u>

NOTE 13: NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restriction balances at year-end consist of the following:

	2018	2017
Subject to Specific Purpose:		
Equipment and improvements	\$ 911,128	\$ 174,512
Subject to Passage of Time:		
Promises to Give that are Not Restricted by Donors, but Which are Unavailable for Expenditure Until Due	100,000	-
Endowments:		
To be held in perpetuity	1,190,032	1,190,032
Subject to NFP Endowment Spending Policy and Appropriation:		
Available for General Use	<u>138,100</u>	<u>235,080</u>
Total Net Assets with Donor Restriction	<u>\$ 2,339,260</u>	<u>\$ 1,599,624</u>

PEPPERMINT RIDGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

NOTE 13: NET ASSETS WITH DONOR RESTRICTION

Net assets were released from donor restriction by incurring expenses satisfying the restricted purposes or by occurrence of the passages of time or other events specified by the donor as follows for the years ended December 31, 2018 and 2017:

Expiration of Time Restrictions	\$	-	\$	315,955
Satisfaction of Purpose Restrictions:				
Equipment and improvements		<u>112,280</u>		<u>32,220</u>
	\$	<u>112,280</u>	\$	<u>348,175</u>

NOTE 14: 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, 2018 and 2017, 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.

