

Form **990**  
Department of the Treasury  
Internal Revenue Service

**Return of Organization Exempt From Income Tax**  
Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung  
benefit trust or private foundation)  
The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047  
**2006**  
Open to Public Inspection

**A For the 2006 calendar year, or tax year beginning** , and ending

**B** Check if applicable

☐ Address change

☐ Name change

☐ Initial return

☐ Final return

☐ Amended return

☐ Application pending

Please  
use IRS  
label or  
print or  
type.  
See  
Specific  
Instruc-  
tions.

**C** Name of organization

**NARCONON SOUTHERN CALIFORNIA**

Number and street (or P.O. box if mail is not delivered to street address)

**1810 W. OCEANFRONT**

Room/suite

City or town, state or country, and ZIP + 4

**NEWPORT BEACH**

**CA 92663-4520**

**D** Employer identification number

**33-0911677**

**E** Telephone number

**949-675-8988**

**F** Accounting method: ☐ Cash

☒ Accrual ☐ Other (specify)

• Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ).

H and are not applicable to section 527 organizations. I

**H(a)** Is this a group return for affiliates? ☐ Yes ☒ No

**H(b)** If "Yes," enter number of affiliates **▶** ☐ Yes ☐ No

**H(c)** Are all affiliates included? **N/A** ☐ Yes ☐ No

(If "No," attach a list. See instructions.)

**H(d)** Is this a separate return filed by an organization covered by a group ruling? ☒ Yes ☐ No

**I** Group Exemption Number **▶ 2595**

**M** Check ☐ if the organization is not required to attach Sch. B (Form 990, 990-EZ, or 990-PF).

**G Website:** **▶ WWW.USNODRUGS.COM**

**J** Organization type

(check only one) ☒ 501(c) ( **3** ) ◀ (insert no.) ☐ 4947(a)(1) or ☐ 527

**K** Check here ☐ if the organization is not a 509(a)(3) supporting organization and its gross receipts are normally not more than \$25,000. A return is not required, but if the organization chooses to file a return, be sure to file a complete return.

**L** Gross receipts. Add lines 6b, 8b, 9b, and 10b to line 12 **▶ 11,386,585**

**Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See the instructions.)**

|          |                                                                                                                           |                |                   |  |  |
|----------|---------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|--|--|
| Revenue  | <b>1</b> Contributions, gifts, grants, and similar amounts received:                                                      |                |                   |  |  |
|          | <b>a</b> Contributions to donor advised funds                                                                             | <b>1a</b>      |                   |  |  |
|          | <b>b</b> Direct public support (not included on line 1a)                                                                  | <b>1b</b>      | <b>328,387</b>    |  |  |
|          | <b>c</b> Indirect public support (not included on line 1a)                                                                | <b>1c</b>      |                   |  |  |
|          | <b>d</b> Government contributions (grants) (not included on line 1a)                                                      | <b>1d</b>      |                   |  |  |
|          | <b>e</b> Total (add lines 1a through 1d) (cash \$ <b>328,387</b> noncash \$ )                                             | <b>1e</b>      | <b>328,387</b>    |  |  |
|          | <b>2</b> Program service revenue including government fees and contracts (from Part VII, line 93)                         | <b>2</b>       | <b>10,825,702</b> |  |  |
|          | <b>3</b> Membership dues and assessments                                                                                  | <b>3</b>       |                   |  |  |
|          | <b>4</b> Interest on savings and temporary cash investments                                                               | <b>4</b>       | <b>7,437</b>      |  |  |
|          | <b>5</b> Dividends and interest from securities                                                                           | <b>5</b>       |                   |  |  |
|          | <b>6a</b> Gross rents                                                                                                     | <b>6a</b>      |                   |  |  |
|          | <b>b</b> Less: rental expenses                                                                                            | <b>6b</b>      |                   |  |  |
|          | <b>c</b> Net rental income or (loss). Subtract line 6b from line 6a                                                       | <b>6c</b>      |                   |  |  |
|          | <b>7</b> Other investment income (describe <b>▶</b> )                                                                     | <b>7</b>       |                   |  |  |
|          | <b>8a</b> Gross amount from sales of assets other than inventory                                                          | (A) Securities | (B) Other         |  |  |
|          | <b>b</b> Less: cost or other basis and sales expenses                                                                     | <b>8a</b>      |                   |  |  |
|          | <b>c</b> Gain or (loss) (attach schedule)                                                                                 | <b>8b</b>      |                   |  |  |
|          | <b>d</b> Net gain or (loss). Combine line 8c, columns (A) and (B)                                                         | <b>8c</b>      |                   |  |  |
|          | <b>Special events and activities (attach schedule). If any amount is from gaming, check here <input type="checkbox"/></b> | <b>8d</b>      |                   |  |  |
|          | <b>9a</b> Gross revenue (not including \$ of contributions reported on line 1b)                                           | <b>9a</b>      |                   |  |  |
|          | <b>b</b> Less: direct expenses other than fundraising expenses                                                            | <b>9b</b>      |                   |  |  |
|          | <b>c</b> Net income or (loss) from special events. Subtract line 9b from line 9a                                          | <b>9c</b>      |                   |  |  |
|          | <b>10a</b> Gross sales of inventory less returns and allowances                                                           | <b>10a</b>     | <b>225,059</b>    |  |  |
|          | <b>b</b> Less: cost of goods sold                                                                                         | <b>10b</b>     | <b>118,340</b>    |  |  |
|          | <b>c</b> Gross profit or (loss) from sales of inventory (attach schedule). Subtract line 10b from line 10a                | <b>10c</b>     | <b>106,719</b>    |  |  |
|          | <b>11</b> Other revenue (from Part VII, line 103)                                                                         | <b>11</b>      |                   |  |  |
|          | <b>12</b> Total revenue. Add lines 1e, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11                                             | <b>12</b>      | <b>11,268,245</b> |  |  |
|          | <b>13</b> Program services (from line 44, column (B))                                                                     | <b>13</b>      | <b>8,175,503</b>  |  |  |
|          | <b>14</b> Management and general (from line 44, column (C))                                                               | <b>14</b>      | <b>1,521,015</b>  |  |  |
|          | <b>15</b> Fundraising (from line 44, column (D))                                                                          | <b>15</b>      | <b>44,537</b>     |  |  |
| Expenses | <b>16</b> Payments to affiliates (attach schedule)                                                                        | <b>16</b>      | <b>1,029,807</b>  |  |  |
|          | <b>17</b> Total expenses. Add lines 16 and 44, column (A)                                                                 | <b>17</b>      | <b>10,770,862</b> |  |  |
|          | <b>18</b> Excess or (deficit) for the year. Subtract line 17 from line 12                                                 | <b>18</b>      | <b>497,383</b>    |  |  |
|          | <b>19</b> Net assets or fund balances at beginning of year (from line 73, column (A))                                     | <b>19</b>      | <b>1,745,658</b>  |  |  |
|          | <b>20</b> Other changes in net assets or fund balances (attach explanation)                                               | <b>20</b>      |                   |  |  |
|          | <b>21</b> Net assets or fund balances at end of year. Combine lines 18, 19, and 20                                        | <b>21</b>      | <b>2,243,041</b>  |  |  |

For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.  
DAA

Form **990** (2006)

917-19

**Part II Statement of Functional Expenses**

All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others. (See the instructions.)

| Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I.                                                                                                                         |            | (A) Total        | (B) Program services | (C) Management and general | (D) Fundraising |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------------|----------------------|----------------------------|-----------------|
| <b>22a</b> Grants paid from donor advised funds (attach schedule)                                                                                                                                 |            |                  |                      |                            |                 |
| (cash \$ _____ non-cash \$ _____)                                                                                                                                                                 |            |                  |                      |                            |                 |
| If this amount includes foreign grants, check here <input type="checkbox"/>                                                                                                                       | <b>22a</b> |                  |                      |                            |                 |
| <b>22b</b> Other grants and allocations (attach schedule) <b>STMT 3</b>                                                                                                                           |            |                  |                      |                            |                 |
| (cash \$ <b>3,050</b> non-cash \$ _____)                                                                                                                                                          |            |                  |                      |                            |                 |
| If this amount includes foreign grants, check here <input type="checkbox"/>                                                                                                                       | <b>22b</b> | <b>3,050</b>     | <b>3,050</b>         |                            |                 |
| <b>23</b> Specific assistance to individuals (attach schedule)                                                                                                                                    | <b>23</b>  |                  |                      |                            |                 |
| <b>24</b> Benefits paid to or for members (attach schedule)                                                                                                                                       | <b>24</b>  |                  |                      |                            |                 |
| <b>25a</b> Compensation of current officers, directors, key employees, etc. listed in Part V-A (attach schedule) <b>SEE STATEMENT 4</b>                                                           | <b>25a</b> | <b>553,827</b>   | <b>319,160</b>       | <b>224,534</b>             | <b>10,133</b>   |
| <b>b</b> Compensation of former officers, directors, key employees, etc. listed in Part V-B (attach schedule)                                                                                     | <b>25b</b> |                  |                      |                            |                 |
| <b>c</b> Compensation and other distributions, not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) (attach schedule) | <b>25c</b> |                  |                      |                            |                 |
| <b>26</b> Salaries and wages of employees not included on lines 25a, b, and c                                                                                                                     | <b>26</b>  | <b>3,010,129</b> | <b>2,600,768</b>     | <b>409,361</b>             |                 |
| <b>27</b> Pension plan contributions not included on lines 25a, b, and c                                                                                                                          | <b>27</b>  |                  |                      |                            |                 |
| <b>28</b> Employee benefits not included on lines 25a - 27                                                                                                                                        | <b>28</b>  | <b>119,074</b>   | <b>102,710</b>       | <b>16,364</b>              |                 |
| <b>29</b> Payroll taxes                                                                                                                                                                           | <b>29</b>  | <b>321,866</b>   | <b>263,962</b>       | <b>57,003</b>              | <b>901</b>      |
| <b>30</b> Professional fundraising fees                                                                                                                                                           | <b>30</b>  |                  |                      |                            |                 |
| <b>31</b> Accounting fees                                                                                                                                                                         | <b>31</b>  | <b>79,669</b>    |                      | <b>79,669</b>              |                 |
| <b>32</b> Legal fees                                                                                                                                                                              | <b>32</b>  | <b>144,928</b>   |                      | <b>144,928</b>             |                 |
| <b>33</b> Supplies                                                                                                                                                                                | <b>33</b>  | <b>247,273</b>   | <b>202,787</b>       | <b>43,794</b>              | <b>692</b>      |
| <b>34</b> Telephone                                                                                                                                                                               | <b>34</b>  | <b>253,178</b>   | <b>207,631</b>       | <b>44,838</b>              | <b>709</b>      |
| <b>35</b> Postage and shipping                                                                                                                                                                    | <b>35</b>  | <b>93,727</b>    | <b>76,866</b>        | <b>16,599</b>              | <b>262</b>      |
| <b>36</b> Occupancy                                                                                                                                                                               | <b>36</b>  | <b>882,343</b>   | <b>721,434</b>       | <b>158,405</b>             | <b>2,504</b>    |
| <b>37</b> Equipment rental and maintenance                                                                                                                                                        | <b>37</b>  | <b>4,682</b>     | <b>3,838</b>         | <b>831</b>                 | <b>13</b>       |
| <b>38</b> Printing and publications                                                                                                                                                               | <b>38</b>  | <b>43,749</b>    | <b>35,878</b>        | <b>7,749</b>               | <b>122</b>      |
| <b>39</b> Travel                                                                                                                                                                                  | <b>39</b>  |                  |                      |                            |                 |
| <b>40</b> Conferences, conventions, and meetings                                                                                                                                                  | <b>40</b>  |                  |                      |                            |                 |
| <b>41</b> Interest                                                                                                                                                                                | <b>41</b>  | <b>477,695</b>   | <b>391,758</b>       | <b>84,599</b>              | <b>1,338</b>    |
| <b>42</b> Depreciation, depletion, etc. (attach schedule)                                                                                                                                         | <b>42</b>  | <b>222,529</b>   | <b>182,496</b>       | <b>39,410</b>              | <b>623</b>      |
| <b>43</b> Other expenses not covered above (itemize).                                                                                                                                             |            |                  |                      |                            |                 |
| <b>a</b> <b>SEE STATEMENT 5</b>                                                                                                                                                                   | <b>43a</b> | <b>3,283,336</b> | <b>3,063,165</b>     | <b>192,931</b>             | <b>27,240</b>   |
| <b>b</b>                                                                                                                                                                                          | <b>43b</b> |                  |                      |                            |                 |
| <b>c</b>                                                                                                                                                                                          | <b>43c</b> |                  |                      |                            |                 |
| <b>d</b>                                                                                                                                                                                          | <b>43d</b> |                  |                      |                            |                 |
| <b>e</b>                                                                                                                                                                                          | <b>43e</b> |                  |                      |                            |                 |
| <b>f</b>                                                                                                                                                                                          | <b>43f</b> |                  |                      |                            |                 |
| <b>g</b>                                                                                                                                                                                          | <b>43g</b> |                  |                      |                            |                 |
| <b>44</b> Total functional expenses. Add lines 22a through 43g. (Organizations completing columns (B)-(D), carry these totals to lines 13-15)                                                     | <b>44</b>  | <b>9,741,055</b> | <b>8,175,503</b>     | <b>1,521,015</b>           | <b>44,537</b>   |

Joint Costs. Check ☐ if you are following SOP 98-2

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services?

▶ ☐ Yes ☒ No

If "Yes," enter (i) the aggregate amount of these joint costs \$ \_\_\_\_\_, (ii) the amount allocated to Program services \$ \_\_\_\_\_,

(iii) the amount allocated to Management and general \$ \_\_\_\_\_, and (iv) the amount allocated to Fundraising \$ \_\_\_\_\_

**Part III Statement of Program Service Accomplishments** (See the instructions.)

Form 990 is available for public inspection and, for some people, serves as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, please make sure the return is complete and accurate and fully describes, in Part III, the organization's programs and accomplishments.

What is the organization's primary exempt purpose?

**► REHABILITATION AND PREVENTION OF SUBSTANCE ABUSE.**

All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)

**Program Service Expenses**

(Required for 501(c)(3) and (4) orgs., and 4947(a)(1) trusts, but optional for others.)

**a SEE STATEMENT 6**

(Grants and allocations \$ ) If this amount includes foreign grants, check here ☐

**7,419,620****b ONE OF THE ORGANIZATION'S PURPOSES IS TO SERVICE THE COMMUNITY BY IMPROVING PUBLIC KNOWLEDGE ABOUT DRUGS AND THEIR HARMFUL EFFECTS. DURING THE YEAR THE ORGANIZATION DELIVERED NARCONON DRUG LECTURES TO APPROXIMATELY 15,000 SCHOOL CHILDREN.**

(Grants and allocations \$ ) If this amount includes foreign grants, check here ☐

**38,208****c SEE STATEMENT 7**

(Grants and allocations \$ **3,050** ) If this amount includes foreign grants, check here ☐

**717,675****d**

(Grants and allocations \$ ) If this amount includes foreign grants, check here ☐

**e Other program services (attach schedule)**

(Grants and allocations \$ ) If this amount includes foreign grants, check here ☐

**f Total of Program Service Expenses** (should equal line 44, column (B), Program services)**8,175,503**Form **990** (2006)

**Part IV Balance Sheets** (See the instructions.)**Note:** Where required, attached schedules and amounts within the description column should be for end-of-year amounts only

|                                                                                                                                                                |                                                                                                                                                       | (A)<br>Beginning of year |           | (B)<br>End of year |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-----------|--------------------|
| <b>Assets</b>                                                                                                                                                  | 45 Cash-non-interest-bearing                                                                                                                          | 282,312                  | 45        | 354,551            |
|                                                                                                                                                                | 46 Savings and temporary cash investments                                                                                                             | 694,960                  | 46        | 423,363            |
|                                                                                                                                                                | 47a Accounts receivable                                                                                                                               | 142,046                  |           |                    |
|                                                                                                                                                                | b Less allowance for doubtful accounts                                                                                                                |                          | 47c       | 142,046            |
|                                                                                                                                                                | 48a Pledges receivable                                                                                                                                |                          |           |                    |
|                                                                                                                                                                | b Less allowance for doubtful accounts                                                                                                                |                          | 48c       |                    |
|                                                                                                                                                                | 49 Grants receivable                                                                                                                                  |                          | 49        |                    |
|                                                                                                                                                                | 50a Receivables from current and former officers, directors, trustees, and key employees (attach schedule)                                            |                          | 50a       |                    |
|                                                                                                                                                                | b Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) (attach schedule)  |                          | 50b       |                    |
|                                                                                                                                                                | 51a Other notes and loans receivable (attach schedule)                                                                                                |                          |           |                    |
|                                                                                                                                                                | b Less allowance for doubtful accounts                                                                                                                |                          | 51c       |                    |
|                                                                                                                                                                | 52 Inventories for sale or use                                                                                                                        |                          | 52        |                    |
|                                                                                                                                                                | 53 Prepaid expenses and deferred charges                                                                                                              | 73,869                   | 53        | 63,900             |
|                                                                                                                                                                | 54a Investments—publicly-traded securities                                                                                                            |                          | 54a       |                    |
|                                                                                                                                                                | b Investments—other securities (attach schedule)                                                                                                      |                          | 54b       |                    |
|                                                                                                                                                                | 55a Investments—land, buildings, and equipment basis                                                                                                  |                          |           |                    |
|                                                                                                                                                                | b Less accumulated depreciation (attach schedule)                                                                                                     |                          | 55c       |                    |
|                                                                                                                                                                | 56 Investments—other (attach schedule)                                                                                                                |                          | 56        |                    |
|                                                                                                                                                                | 57a Land, buildings, and equipment basis                                                                                                              | 8,049,200                |           |                    |
| b Less accumulated depreciation (attach schedule) <b>SEE STATEMENT 8</b>                                                                                       | 612,462                                                                                                                                               | 57c                      | 7,436,738 |                    |
| 58 Other assets, including program-related investments (describe <b>SEE STATEMENT 9</b> )                                                                      | 335,447                                                                                                                                               | 58                       | 552,336   |                    |
| 59 <b>Total assets</b> (must equal line 74) Add lines 45 through 58                                                                                            | 8,016,907                                                                                                                                             | 59                       | 8,972,934 |                    |
| <b>Liabilities</b>                                                                                                                                             | 60 Accounts payable and accrued expenses                                                                                                              | 219,172                  | 60        | 363,238            |
|                                                                                                                                                                | 61 Grants payable                                                                                                                                     |                          | 61        |                    |
|                                                                                                                                                                | 62 Deferred revenue <b>SEE STATEMENT 10</b>                                                                                                           | 88,500                   | 62        | 78,000             |
|                                                                                                                                                                | 63 Loans from officers, directors, trustees, and key employees (attach schedule)                                                                      |                          | 63        |                    |
|                                                                                                                                                                | 64a Tax-exempt bond liabilities (attach schedule)                                                                                                     |                          | 64a       |                    |
|                                                                                                                                                                | b Mortgages and other notes payable (attach schedule) <b>SEE WORKSHEET</b>                                                                            | 5,900,554                | 64b       | 6,199,949          |
|                                                                                                                                                                | 65 Other liabilities (describe <b>SEE STATEMENT 11</b> )                                                                                              | 63,023                   | 65        | 88,706             |
| 66 <b>Total liabilities.</b> Add lines 60 through 65                                                                                                           | 6,271,249                                                                                                                                             | 66                       | 6,729,893 |                    |
| <b>Net Assets or Fund Balances</b>                                                                                                                             | <b>Organizations that follow SFAS 117, check here</b> <input checked="" type="checkbox"/> <b>and complete lines 67 through 69 and lines 73 and 74</b> |                          |           |                    |
|                                                                                                                                                                | 67 Unrestricted                                                                                                                                       | 1,745,658                | 67        | 2,243,041          |
|                                                                                                                                                                | 68 Temporarily restricted                                                                                                                             |                          | 68        |                    |
|                                                                                                                                                                | 69 Permanently restricted                                                                                                                             |                          | 69        |                    |
|                                                                                                                                                                | <b>Organizations that do not follow SFAS 117, check here</b> <input type="checkbox"/> <b>and complete lines 70 through 74</b>                         |                          |           |                    |
|                                                                                                                                                                | 70 Capital stock, trust principal, or current funds                                                                                                   |                          | 70        |                    |
|                                                                                                                                                                | 71 Paid-in or capital surplus, or land, building, and equipment fund                                                                                  |                          | 71        |                    |
|                                                                                                                                                                | 72 Retained earnings, endowment, accumulated income, or other funds                                                                                   |                          | 72        |                    |
| 73 <b>Total net assets or fund balances</b> (add lines 67 through 69 or lines 70 through 72 (Column (A) must equal line 19 and column (B) must equal line 21)) | 1,745,658                                                                                                                                             | 73                       | 2,243,041 |                    |
| 74 <b>Total liabilities and net assets/fund balances.</b> Add lines 66 and 73                                                                                  | 8,016,907                                                                                                                                             | 74                       | 8,972,934 |                    |

**Part IV-A Reconciliation of Revenue per Audited Financial Statements With Revenue per Return** (See the instructions.)

|   |                                                                          |    |         |            |
|---|--------------------------------------------------------------------------|----|---------|------------|
| a | Total revenue, gains, and other support per audited financial statements |    | a       | 11,386,585 |
| b | Amounts included on line a but not on Part I, line 12                    |    |         |            |
| 1 | Net unrealized gains on investments                                      | b1 |         |            |
| 2 | Donated services and use of facilities                                   | b2 |         |            |
| 3 | Recoveries of prior year grants                                          | b3 |         |            |
| 4 | Other (specify):                                                         | b4 | 118,340 |            |
|   | SEE STATEMENT 12                                                         |    |         |            |
|   | Add lines b1 through b4                                                  |    | b       | 118,340    |
| c | Subtract line b from line a                                              |    | c       | 11,268,245 |
| d | Amounts included on Part I, line 12, but not on line a:                  |    |         |            |
| 1 | Investment expenses not included on Part I, line 6b                      | d1 |         |            |
| 2 | Other (specify):                                                         | d2 |         |            |
|   | Add lines d1 and d2                                                      |    | d       |            |
| e | Total revenue (Part I, line 12) Add lines c and d                        |    | e       | 11,268,245 |

**Part IV-B Reconciliation of Expenses per Audited Financial Statements With Expenses per Return**

|   |                                                            |    |         |            |
|---|------------------------------------------------------------|----|---------|------------|
| a | Total expenses and losses per audited financial statements |    | a       | 10,889,202 |
| b | Amounts included on line a but not Part I, line 17         |    |         |            |
| 1 | Donated services and use of facilities                     | b1 |         |            |
| 2 | Prior year adjustments reported on Part I, line 20         | b2 |         |            |
| 3 | Losses reported on Part I, line 20                         | b3 |         |            |
| 4 | Other (specify):                                           | b4 | 118,340 |            |
|   | SEE STATEMENT 13                                           |    |         |            |
|   | Add lines b1 through b4                                    |    | b       | 118,340    |
| c | Subtract line b from line a                                |    | c       | 10,770,862 |
| d | Amounts included on Part I, line 17, but not on line a:    |    |         |            |
| 1 | Investment expenses not included on Part I, line 6b        | d1 |         |            |
| 2 | Other (specify):                                           | d2 |         |            |
|   | Add lines d1 and d2                                        |    | d       |            |
| e | Total expenses (Part I, line 17) Add lines c and d         |    | e       | 10,770,862 |

**Part V-A Current Officers, Directors, Trustees, and Key Employees** (List each person who was an officer, director, trustee, or key employee at any time during the year even if they were not compensated.) (See the instructions.)

| (A) Name and address |               | (B) Title and average hours per week devoted to position | (C) Compensation (If not paid, enter -0-.) | (D) Contributions to employee benefit plans & deferred compensation plans | (E) Expense account and other allowances |
|----------------------|---------------|----------------------------------------------------------|--------------------------------------------|---------------------------------------------------------------------------|------------------------------------------|
| LAWRENCE TRAHANT     | NEWPORT BEACH | CEO/ED/DIR                                               |                                            |                                                                           |                                          |
| 1810 W. OCEANFRONT   | CA 92663      | 40                                                       | 97,254                                     | 1,944                                                                     | 12,093                                   |
| JULIE BRYANT         | NEWPORT BEACH | SECRETARY                                                |                                            |                                                                           |                                          |
| 1810 W. OCEANFRONT   | CA 92663      | 40                                                       | 97,297                                     | 4,770                                                                     | 0                                        |
| DAVID WORTHINGTON    | NEWPORT BEACH | CFO/TREAS                                                |                                            |                                                                           |                                          |
| 1810 W. OCEANFRONT   | CA 92663      | 40                                                       | 108,600                                    | 0                                                                         | 0                                        |
| NICHOLAS KENT        | NEWPORT BEACH | ED/VP/DEP ED                                             |                                            |                                                                           |                                          |
| 1810 W. OCEANFRONT   | CA 92663      | 40                                                       | 125,850                                    | 2,892                                                                     | 0                                        |
| MICHAEL KOBRIN       | NEWPORT BEACH | VP/DEP ED                                                |                                            |                                                                           |                                          |
| 1810 W. OCEANFRONT   | CA 92663      | 40                                                       | 87,707                                     | 15,420                                                                    | 0                                        |
| PATRICIA SCHWARTZ    | NEWPORT BEACH | DIRECTOR                                                 |                                            |                                                                           |                                          |
| 1810 W. OCEANFRONT   | CA 92663      | 1                                                        | 0                                          | 0                                                                         | 0                                        |
| JULIE BERK           | NEWPORT BEACH | DIRECTOR                                                 |                                            |                                                                           |                                          |
| 1810 W. OCEANFRONT   | CA 92663      | 1                                                        | 0                                          | 0                                                                         | 0                                        |
| KAREN SEAGAL         | NEWPORT BEACH | TRUSTEE                                                  |                                            |                                                                           |                                          |
| 1810 W. OCEANFRONT   | CA 92663      | 1                                                        | 0                                          | 0                                                                         | 0                                        |
| CLARK CARR           | NEWPORT BEACH | TRUSTEE                                                  |                                            |                                                                           |                                          |
| 1810 W. OCEANFRONT   | CA 92663      | 1                                                        | 0                                          | 0                                                                         | 0                                        |
| MICHAEL ST. ARMAND   | NEWPORT BEACH | TRUSTEE                                                  |                                            |                                                                           |                                          |
| 1810 W. OCEANFRONT   | CA 92663      | 1                                                        | 0                                          | 0                                                                         | 0                                        |

**Part V-A**      **Current Officers, Directors, Trustees, and Key Employees** (continued)

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |     |          |          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----------|----------|
| <p><b>75a</b> Enter the total number of officers, directors, and trustees permitted to vote on organization business at board meetings <span style="float: right;">▶ 3</span></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                         |     |          |          |
| <p><b>b</b> Are any officers, directors, trustees, or key employees listed in Form 990, Part V-A, or highest compensated employees listed in Schedule A, Part I, or highest compensated professional and other independent contractors listed in Schedule A, Part II-A or II-B, related to each other through family or business relationships? If "Yes," attach a statement that identifies the individuals and explains the relationship(s)</p>                                                                                                                                                                                         | 75b |          | <b>X</b> |
| <p><b>c</b> Do any officers, directors, trustees, or key employees listed in Form 990, Part V-A, or highest compensated employees listed in Schedule A, Part I, or highest compensated professional and other independent contractors listed in Schedule A, Part II-A or II-B, receive compensation from any other organizations, whether tax exempt or taxable, that are related to the organization? See the instructions for the definition of "related organization "</p> <p>If "Yes," attach a statement that includes the information described in the instructions. <span style="float: right;"><b>SEE STATEMENT 14</b></span></p> | 75c | <b>X</b> |          |
| <p><b>d</b> Does the organization have a written conflict of interest policy?</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 75d | <b>X</b> |          |

**Part V-B Former Officers, Directors, Trustees, and Key Employees That Received Compensation or Other Benefits**

(If any former officer, director, trustee, or key employee received compensation or other benefits (described below) during the year, list that person below and enter the amount of compensation or other benefits in the appropriate column. See the instructions.)

[illegible]**Part VI**      **Other Information (See the instructions.)**

|            |                                                                                                                                                                                                                           |     |            |          |          |
|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|------------|----------|----------|
| <b>76</b>  | Did the organization make a change in its activities or methods of conducting activities? If "Yes," attach a detailed statement of each change                                                                            | N/A | <b>76</b>  |          | <b>X</b> |
| <b>77</b>  | Were any changes made in the organizing or governing documents but not reported to the IRS?<br>If "Yes," attach a conformed copy of the changes                                                                           | N/A | <b>77</b>  |          | <b>X</b> |
| <b>78a</b> | Did the organization have unrelated business gross income of \$1,000 or more during the year covered by this return?                                                                                                      | N/A | <b>78a</b> |          | <b>X</b> |
| <b>b</b>   | If "Yes," has it filed a tax return on <b>Form 990-T</b> for this year?                                                                                                                                                   | N/A | <b>78b</b> |          |          |
| <b>79</b>  | Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement                                                                                               | N/A | <b>79</b>  |          | <b>X</b> |
| <b>80a</b> | Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization? | N/A | <b>80a</b> | <b>X</b> |          |
| <b>b</b>   | If "Yes," enter the name of the organization ► <b>NARCONON WESTERN UNITED STATES</b><br>and check whether it is <input checked="" type="checkbox"/> exempt or <input type="checkbox"/> nonexempt                          | N/A |            |          |          |
| <b>81a</b> | Enter direct and indirect political expenditures (See line 81 instructions.)                                                                                                                                              |     | <b>81a</b> | 0        |          |
| <b>b</b>   | Did the organization file <b>Form 1120-POL</b> for this year?                                                                                                                                                             |     | <b>81b</b> |          | <b>X</b> |

**Part VI Other Information (continued)**

|            |                                                                                                                                                                                                                                                                                                                                                                                                                                     | Yes                                                      | No       |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|----------|
| <b>82a</b> | Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value?                                                                                                                                                                                                                                                                       |                                                          | <b>X</b> |
| <b>b</b>   | If "Yes," you may indicate the value of these items here. Do not include this amount as revenue in Part I or as an expense in Part II.<br>(See instructions in Part III.)                                                                                                                                                                                                                                                           |                                                          |          |
| <b>82b</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                          |          |
| <b>83a</b> | Did the organization comply with the public inspection requirements for returns and exemption applications?                                                                                                                                                                                                                                                                                                                         | <b>X</b>                                                 |          |
| <b>b</b>   | Did the organization comply with the disclosure requirements relating to quid pro quo contributions?                                                                                                                                                                                                                                                                                                                                | <b>X</b>                                                 |          |
| <b>84a</b> | Did the organization solicit any contributions or gifts that were not tax deductible?                                                                                                                                                                                                                                                                                                                                               |                                                          | <b>X</b> |
| <b>b</b>   | If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?                                                                                                                                                                                                                                                                                       | N/A                                                      |          |
| <b>85</b>  | 501(c)(4), (5), or (6) organizations: a Were substantially all dues nondeductible by members?                                                                                                                                                                                                                                                                                                                                       | N/A                                                      |          |
| <b>b</b>   | Did the organization make only in-house lobbying expenditures of \$2,000 or less?<br>If "Yes" was answered to either 85a or 85b, do not complete 85c through 85h below unless the organization received a waiver for proxy tax owed for the prior year.                                                                                                                                                                             | N/A                                                      |          |
| <b>c</b>   | Dues, assessments, and similar amounts from members                                                                                                                                                                                                                                                                                                                                                                                 | N/A                                                      |          |
| <b>d</b>   | Section 162(e) lobbying and political expenditures                                                                                                                                                                                                                                                                                                                                                                                  | N/A                                                      |          |
| <b>e</b>   | Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices                                                                                                                                                                                                                                                                                                                                                                | N/A                                                      |          |
| <b>f</b>   | Taxable amount of lobbying and political expenditures (line 85d less 85e)                                                                                                                                                                                                                                                                                                                                                           | N/A                                                      |          |
| <b>g</b>   | Does the organization elect to pay the section 6033(e) tax on the amount on line 85f?                                                                                                                                                                                                                                                                                                                                               | N/A                                                      |          |
| <b>h</b>   | If section 6033(e)(1)(A) dues notices were sent, does the organization agree to add the amount on line 85f to its reasonable estimate of dues allocable to nondeductible lobbying and political expenditures for the following tax year?                                                                                                                                                                                            | N/A                                                      |          |
| <b>86</b>  | 501(c)(7) orgs. Enter: a Initiation fees and capital contributions included on line 12                                                                                                                                                                                                                                                                                                                                              | N/A                                                      |          |
| <b>b</b>   | Gross receipts, included on line 12, for public use of club facilities                                                                                                                                                                                                                                                                                                                                                              | N/A                                                      |          |
| <b>87</b>  | 501(c)(12) orgs. Enter: a Gross income from members or shareholders                                                                                                                                                                                                                                                                                                                                                                 | N/A                                                      |          |
| <b>b</b>   | Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them.)                                                                                                                                                                                                                                                                                                        | N/A                                                      |          |
| <b>88a</b> | At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership, or an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Part IX                                                                                                                                                                |                                                          | <b>X</b> |
| <b>b</b>   | At any time during the year, did the organization, directly or indirectly, own a controlled entity within the meaning of section 512(b)(13)? If "Yes," complete Part XI                                                                                                                                                                                                                                                             |                                                          | <b>X</b> |
| <b>89a</b> | 501(c)(3) organizations. Enter: Amount of tax imposed on the organization during the year under section 4911 <b>0</b> , section 4912 <b>0</b> ; section 4955 <b>0</b>                                                                                                                                                                                                                                                               |                                                          |          |
| <b>b</b>   | 501(c)(3) and 501(c)(4) orgs. Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach a statement explaining each transaction                                                                                                                                                                        |                                                          | <b>X</b> |
| <b>c</b>   | Enter: Amount of tax imposed on the organization managers or disqualified persons during the year under sections 4912, 4955, and 4958                                                                                                                                                                                                                                                                                               | <b>0</b>                                                 |          |
| <b>d</b>   | Enter: Amount of tax on line 89c, above, reimbursed by the organization                                                                                                                                                                                                                                                                                                                                                             | <b>0</b>                                                 |          |
| <b>e</b>   | All organizations. At any time during the tax year, was the organization a party to a prohibited tax shelter transaction?                                                                                                                                                                                                                                                                                                           |                                                          | <b>X</b> |
| <b>f</b>   | All organizations. Did the organization acquire a direct or indirect interest in any applicable insurance contract?                                                                                                                                                                                                                                                                                                                 |                                                          | <b>X</b> |
| <b>g</b>   | For supporting organizations and sponsoring organizations maintaining donor advised funds. Did the supporting organization, or a fund maintained by a sponsoring organization, have excess business holdings at any time during the year?                                                                                                                                                                                           | N/A                                                      |          |
| <b>90a</b> | List the states with which a copy of this return is filed <b>CA</b>                                                                                                                                                                                                                                                                                                                                                                 |                                                          |          |
| <b>b</b>   | Number of employees employed in the pay period that includes March 12, 2006 (See instructions.)                                                                                                                                                                                                                                                                                                                                     | <b>110</b>                                               |          |
| <b>91a</b> | The books are in care of <b>JESSICA LOWE</b><br><b>6161 SANTA MONICA BLVD SUITE 208</b><br>Located at <b>LOS ANGELES, CA</b>                                                                                                                                                                                                                                                                                                        | Telephone no <b>323-871-8644</b><br>ZIP + 4 <b>90038</b> |          |
| <b>b</b>   | At any time during the calendar year, did the organization have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)?<br>If "Yes," enter the name of the foreign country <b>See the instructions for exceptions and filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts</b> |                                                          | <b>X</b> |

**Part VI Other Information (continued)**

c At any time during the calendar year, did the organization maintain an office outside of the United States?

91c

Yes ☐ No ☒If "Yes," enter the name of the foreign country **▶**92 Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of Form 1041- Check here and enter the amount of tax-exempt interest received or accrued during the tax year **▶** 92 | N/A **▶** ☐**Part VII Analysis of Income-Producing Activities (See the instructions.)**

Note: Enter gross amounts unless otherwise indicated.

|                                                              | Unrelated business income |               | Excluded by section 512, 513, or 514 |               | (E)<br>Related or<br>exempt function<br>income |
|--------------------------------------------------------------|---------------------------|---------------|--------------------------------------|---------------|------------------------------------------------|
|                                                              | (A)<br>Business code      | (B)<br>Amount | (C)<br>Exclusion<br>code             | (D)<br>Amount |                                                |
| 93 Program service revenue                                   |                           |               |                                      |               |                                                |
| a <b>DRUG REHABILITATION SERVICES</b>                        |                           |               |                                      |               | 10,825,702                                     |
| b                                                            |                           |               |                                      |               |                                                |
| c                                                            |                           |               |                                      |               |                                                |
| d                                                            |                           |               |                                      |               |                                                |
| e                                                            |                           |               |                                      |               |                                                |
| f Medicare/Medicaid payments                                 |                           |               |                                      |               |                                                |
| g Fees and contracts from government agencies                |                           |               |                                      |               |                                                |
| 94 Membership dues and assessments                           |                           |               |                                      |               |                                                |
| 95 Interest on savings and temporary cash investments        |                           |               | 14                                   | 7,437         |                                                |
| 96 Dividends and interest from securities                    |                           |               |                                      |               |                                                |
| 97 Net rental income or (loss) from real estate:             |                           |               |                                      |               |                                                |
| a debt-financed property                                     |                           |               |                                      |               |                                                |
| b not debt-financed property                                 |                           |               |                                      |               |                                                |
| 98 Net rental income or (loss) from personal property        |                           |               |                                      |               |                                                |
| 99 Other investment income                                   |                           |               |                                      |               |                                                |
| 100 Gain or (loss) from sales of assets other than inventory |                           |               |                                      |               |                                                |
| 101 Net income or (loss) from special events                 |                           |               |                                      |               |                                                |
| 102 Gross profit or (loss) from sales of inventory           |                           |               |                                      |               | 106,719                                        |
| 103 Other revenue: a                                         |                           |               |                                      |               |                                                |
| b                                                            |                           |               |                                      |               |                                                |
| c                                                            |                           |               |                                      |               |                                                |
| d                                                            |                           |               |                                      |               |                                                |
| e                                                            |                           |               |                                      |               |                                                |
| 104 Subtotal (add columns (B), (D), and (E))                 |                           | 0             |                                      | 7,437         | 10,932,421                                     |
| 105 Total (add line 104, columns (B), (D), and (E))          |                           |               |                                      |               | 10,939,858                                     |

Note: Line 105 plus line 1e, Part I, should equal the amount on line 12, Part I

**Part VIII Relationship of Activities to the Accomplishment of Exempt Purposes (See the instructions.)**

| Line No.<br>▼ | Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes). |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 93A           | RECEIPTS FOR DELIVERY OF DRUG REHAB & PREVENTION SERVICES                                                                                                                                                               |
| 102           | INCOME FROM SALES OF MATERIALS USED IN ANTI-DRUG PROGRAMS                                                                                                                                                               |
|               |                                                                                                                                                                                                                         |
|               |                                                                                                                                                                                                                         |

**Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities (See the instructions.)**

| (A)<br>Name, address, and EIN of corporation, partnership, or disregarded entity | (B)<br>Percentage of ownership interest | (C)<br>Nature of activities | (D)<br>Total income | (E)<br>End-of-year assets |
|----------------------------------------------------------------------------------|-----------------------------------------|-----------------------------|---------------------|---------------------------|
| N/A                                                                              | %                                       |                             |                     |                           |
|                                                                                  | %                                       |                             |                     |                           |
|                                                                                  | %                                       |                             |                     |                           |
|                                                                                  | %                                       |                             |                     |                           |

**Part X Information Regarding Transfers Associated with Personal Benefit Contracts (See the instructions.)**

(a) Did the organization, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?

Yes ☒ No ☒

(b) Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?

Yes ☐ No ☒

Note: If "Yes" to (b), file Form 8870 and Form 4720 (see instructions)



**Part XI Information Regarding Transfers To and From Controlled Entities.** Complete only if the organization is a controlling organization as defined in section 512(b)(13).

**106** Did the reporting organization make any transfers to a controlled entity as defined in section 512(b)(13) of the Code? If "Yes," complete the schedule below for each controlled entity

N/A

| Yes | No |
|-----|----|
|     |    |

|        | (A)<br>Name, address, of each<br>controlled entity | (B)<br>Employer ID<br>Number | (C)<br>Description of<br>transfer | (D)<br>Amount of transfer |
|--------|----------------------------------------------------|------------------------------|-----------------------------------|---------------------------|
| a      |                                                    |                              |                                   |                           |
| b      |                                                    |                              |                                   |                           |
| c      |                                                    |                              |                                   |                           |
| Totals |                                                    |                              |                                   |                           |

**107** Did the reporting organization receive any transfers from a controlled entity as defined in section 512(b)(13) of the Code? If "Yes," complete the schedule below for each controlled entity

N/A

| Yes | No |
|-----|----|
|     |    |

|        | (A)<br>Name, address, of each<br>controlled entity | (B)<br>Employer ID<br>Number | (C)<br>Description of<br>transfer | (D)<br>Amount of transfer |
|--------|----------------------------------------------------|------------------------------|-----------------------------------|---------------------------|
| a      |                                                    |                              |                                   |                           |
| b      |                                                    |                              |                                   |                           |
| c      |                                                    |                              |                                   |                           |
| Totals |                                                    |                              |                                   |                           |

**108** Did the organization have a binding written contract in effect on August 17, 2006, covering the interest, rents, royalties, and annuities described in question 107 above?

N/A

| Yes | No |
|-----|----|
|     |    |

**Please  
Sign  
Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature of officer

Date

Lawrence Trahan, CEO

Type or print name and title

**Paid  
Preparer's  
Use Only**

Preparer's  
signature

Date

Check if  
self-  
employed

Preparer's SSN or PTIN  
(See Gen Instr X)

11/15/07

EIN

Firm's name (or yours  
if self-employed),  
address, and ZIP + 4

ROLAND W. FINK, CPA  
2441 HONOLULU AVE., SUITE 126  
MONTROSE, CA 91020-1847

Phone  
no

818-249-4577

Form 990 (2006)

**SCHEDULE A**  
**(Form 990 or 990-EZ)****Organization Exempt Under Section 501(c)(3)**(Except Private Foundation) and Section 501(e), 501(f), 501(k), 501(n),  
or 4947(a)(1) Nonexempt Charitable Trust

OMB No 1545-0047

**2006**Department of the Treasury  
Internal Revenue Service**Supplementary Information-(See separate instructions.)**▶ **MUST be completed by the above organizations and attached to their Form 990 or 990-EZ**

Name of the organization

NARCONON SOUTHERN CALIFORNIA

Employer identification number

33-0911677

**Part I Compensation of the Five Highest Paid Employees Other Than Officers, Directors, and Trustees**  
(See page 2 of the instructions. List each one. If there are none, enter "None.")

| (a) Name and address of each employee paid more than \$50,000       | (b) Title and average hours per week devoted to position | (c) Comp | (d) Contrib to empl ben plans & deferred comp | (e) Expense - account & other allowances |
|---------------------------------------------------------------------|----------------------------------------------------------|----------|-----------------------------------------------|------------------------------------------|
| JEANNE ADAMS<br>1810 W OCEANFRONT<br>NEWPORT BEACH<br>CA 92663      | FACILITY DIR<br>0                                        | 72,971   | 1,944                                         | 11,768                                   |
| ROBERT MARKHAM<br>1810 W OCEANFRONT<br>NEWPORT BEACH<br>CA 92663    | REGISTRAR<br>0                                           | 75,799   | 1,944                                         | 4,015                                    |
| CHRISTOPHER BAUGE<br>1810 W OCEANFRONT<br>NEWPORT BEACH<br>CA 92663 | REGISTRAR<br>0                                           | 77,255   | 1,693                                         | 2,564                                    |
| LURIA K DION<br>1810 W OCEANFRONT<br>NEWPORT BEACH<br>CA 92663      | FACILITY DIR<br>0                                        | 71,433   | 1                                             | 0                                        |
| PETER KENT<br>1810 W OCEANFRONT<br>NEWPORT BEACH<br>CA 92663        | ESTATES MGR<br>0                                         | 70,478   | 0                                             | 0                                        |
| Total number of other employees paid over \$50,000 ▶                |                                                          | 9        |                                               |                                          |

**Part II-A Compensation of the Five Highest Paid Independent Contractors for Professional Services**

(See page 2 of the instructions. List each one (whether individuals or firms). If there are none, enter "None.")

| (a) Name and address of each independent contractor paid more than \$50,000            | (b) Type of service | (c) Compensation |
|----------------------------------------------------------------------------------------|---------------------|------------------|
| CHAPMAN HOUSE<br>1412 E. CHAPMAN AVE<br>ORANGE<br>CA 92866                             | TRANSITION CARE     | 424,126          |
| COLLEGE HOSPITAL<br>301 VICTORIA STREET<br>COSTA MESA<br>CA 92627                      | MEDICAL SRVCS       | 103,419          |
| INSTITUTE FOR PROGRESSIVE MEDICINE<br>16100 SAND CANYON AVE #240<br>IRVINE<br>CA 92618 | MEDICAL SRVCS       | 51,275           |
|                                                                                        |                     |                  |
|                                                                                        |                     |                  |

Total number of others receiving over \$50,000 for  
professional services ▶

0

**Part II-B Compensation of the Five Highest Paid Independent Contractors for Other Services**

(List each contractor who performed services other than professional services, whether individuals or firms. If there are none, enter "None." See page 2 of the instructions.)

| (a) Name and address of each independent contractor paid more than \$50,000    | (b) Type of service | (c) Compensation |
|--------------------------------------------------------------------------------|---------------------|------------------|
| NONE                                                                           |                     |                  |
|                                                                                |                     |                  |
|                                                                                |                     |                  |
|                                                                                |                     |                  |
|                                                                                |                     |                  |
|                                                                                |                     |                  |
| Total number of other contractors receiving over \$50,000 for other services ▶ |                     |                  |

For Paperwork Reduction Act Notice, see the Instructions for Form 990 and Form 990-EZ.

Schedule A (Form 990 or 990-EZ) 2006

**Part III Statements About Activities** (See page 2 of the instructions.)

Yes No

- 1** During the year, has the organization attempted to influence national, state, or local legislation, including any attempt to influence public opinion on a legislative matter or referendum? If "Yes," enter the total expenses paid or incurred in connection with the lobbying activities ► \$ \_\_\_\_\_ (Must equal amounts on line 38, Part VI-A, or line I of Part VI-B )

1 X

Organizations that made an election under section 501(h) by filing Form 5768 must complete Part VI-A. Other organizations checking "Yes" must complete Part VI-B AND attach a statement giving a detailed description of the lobbying activities

- 2** During the year, has the organization, either directly or indirectly, engaged in any of the following acts with any substantial contributors, trustees, directors, officers, creators, key employees, or members of their families, or with any taxable organization with which any such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary? (If the answer to any question is "Yes," attach a detailed statement explaining the transactions )

**a** Sale, exchange, or leasing of property?

2a X

**b** Lending of money or other extension of credit?

2b X

**c** Furnishing of goods, services, or facilities?

2c X

**d** Payment of compensation (or payment or reimbursement of expenses if more than \$1,000)? **SEE PART V-A, FORM 990**

2d X

**e** Transfer of any part of its income or assets?

2e X

**3a** Did the organization make grants for scholarships, fellowships, student loans, etc.? (If "Yes," attach an explanation of how the organization determines that recipients qualify to receive payments.)

3a X

**b** Did the organization have a section 403(b) annuity plan for its employees?

3b X

**c** Did the organization receive or hold an easement for conservation purposes, including easements to preserve open space, the environment, historic land areas or historic structures? If "Yes," attach a detailed statement

3c X

**d** Did the organization provide credit counseling, debt management, credit repair, or debt negotiation services?

3d X

**4a** Did the organization maintain any donor advised funds? If "Yes," complete lines 4b through 4g. If "No," complete lines 4f and 4g

4a X

**b** Did the organization make any taxable distributions under section 4966?

4b

**c** Did the organization make a distribution to a donor, donor advisor, or related person?

4c

**d** Enter the total number of donor advised funds owned at the end of the tax year ► \_\_\_\_\_

**e** Enter the aggregate value of assets held in all donor advised funds owned at the end of the tax year ► \_\_\_\_\_

**f** Enter the total number of separate funds or accounts owned at the end of the tax year (excluding donor advised funds included on line 4d) where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts ► \_\_\_\_\_

0

**g** Enter the aggregate value of assets held in all funds or accounts included on line 4f at the end of the tax year ► \_\_\_\_\_

0

**Part IV Reason for Non-Private Foundation Status** (See pages 4 through 7 of the instructions.)I certify that the organization is not a private foundation because it is (Please check only **ONE** applicable box.)

- 5 ☐ A church, convention of churches, or association of churches Section 170(b)(1)(A)(i)
- 6 ☐ A school Section 170(b)(1)(A)(iii) (Also complete Part V.)
- 7 ☐ A hospital or a cooperative hospital service organization. Section 170(b)(1)(A)(iii)
- 8 ☐ A federal, state, or local government or governmental unit Section 170(b)(1)(A)(v).
- 9 ☐ A medical research organization operated in conjunction with a hospital Section 170(b)(1)(A)(iii) Enter the hospital's name, city, and state ►
- 10 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit Section 170(b)(1)(A)(iv) (Also complete the **Support Schedule** in Part IV-A.)
- 11a ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public Section 170(b)(1)(A)(vi) (Also complete the **Support Schedule** in Part IV-A.)
- 11b ☐ A community trust Section 170(b)(1)(A)(vi) (Also complete the **Support Schedule** in Part IV-A.)
- 12 ☒ An organization that normally receives: (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its charitable, etc., functions-subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See section 509(a)(2). (Also complete the **Support Schedule** in Part IV-A.)
- 13 ☐ An organization that is not controlled by any disqualified persons (other than foundation managers) and otherwise meets the requirements of section 509(a)(3) Check the box that describes the type of supporting organization
- ☐ Type I ☐ Type II ☐ Type III-Functionally Intergrated ☐ Type III-Other

**Provide the following information about the supported organizations.** (See page 7 of the instructions.)

| (a)<br>Name(s) of supported organization(s) | (b)<br>Employer<br>identification<br>number (EIN) | (c)<br>Type of<br>organization<br>(described in lines<br>5 through 12<br>above or IRC<br>section) | (d)<br>Is the supported<br>organization listed in<br>the supporting<br>organization's<br>governing documents? |    | (e)<br>Amount of<br>support |
|---------------------------------------------|---------------------------------------------------|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|----|-----------------------------|
|                                             |                                                   |                                                                                                   | Yes                                                                                                           | No |                             |
|                                             |                                                   |                                                                                                   |                                                                                                               |    |                             |
|                                             |                                                   |                                                                                                   |                                                                                                               |    |                             |
|                                             |                                                   |                                                                                                   |                                                                                                               |    |                             |
|                                             |                                                   |                                                                                                   |                                                                                                               |    |                             |
|                                             |                                                   |                                                                                                   |                                                                                                               |    |                             |
|                                             |                                                   |                                                                                                   |                                                                                                               |    |                             |
|                                             |                                                   |                                                                                                   |                                                                                                               |    |                             |
| <b>Total</b> ►                              |                                                   |                                                                                                   |                                                                                                               |    |                             |

- 14 ☐ An organization organized and operated to test for public safety Section 509(a)(4) (See page 7 of the instructions.)

**Part IV-A Support Schedule** (Complete only if you checked a box on line 10, 11, or 12 ) Use cash method of accounting.**Note:** You may use the worksheet in the instructions for converting from the accrual to the cash method of accounting.

| Calendar year (or fiscal year beginning in)                                                                                                                                                                                                                                | (a) 2005  | (b) 2004  | (c) 2003  | (d) 2002  | (e) Total  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|------------|
| <b>15</b> Gifts, grants, and contributions received (Do not include unusual grants See line 28 )                                                                                                                                                                           | 139,647   | 9,325     | 23,860    | 15,514    | 188,346    |
| <b>16</b> Membership fees received                                                                                                                                                                                                                                         |           |           |           |           | 0          |
| <b>17</b> Gross receipts from admissions, merchandise sold or services performed, or furnishing of facilities in any activity that is related to the organization's charitable, etc., purpose                                                                              | 9,461,213 | 6,428,990 | 5,008,014 | 3,647,468 | 24,545,685 |
| <b>18</b> Gross income from interest, dividends, amounts received from payments on securities loans (section 512(a)(5)), rents, royalties, and unrelated business taxable income (less section 511 taxes) from businesses acquired by the organization after June 30, 1975 | 2,861     | 90        | 97        | 210       | 3,258      |
| <b>19</b> Net income from unrelated business activities not included in line 18                                                                                                                                                                                            |           |           |           |           | 0          |
| <b>20</b> Tax revenues levied for the organization's benefit and either paid to it or expended on its behalf                                                                                                                                                               |           |           |           |           | 0          |
| <b>21</b> The value of services or facilities furnished to the organization by a governmental unit without charge Do not include the value of services or facilities generally furnished to the public without charge                                                      |           |           |           |           | 0          |
| <b>22</b> Other income Attach a schedule Do not include gain or (loss) from sale of capital assets                                                                                                                                                                         |           |           |           |           | 0          |
| <b>23</b> Total of lines 15 through 22                                                                                                                                                                                                                                     | 9,603,721 | 6,438,405 | 5,031,971 | 3,663,192 | 24,737,289 |
| <b>24</b> Line 23 minus line 17                                                                                                                                                                                                                                            | 142,508   | 9,415     | 23,957    | 15,724    | 191,604    |
| <b>25</b> Enter 1% of line 23                                                                                                                                                                                                                                              | 96,037    | 64,384    | 50,320    | 36,632    |            |

|                                                                                                                                                                                                                                                                                                                                    |                                             |   |     |   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|---|-----|---|
| <b>26 Organizations described on lines 10 or 11:</b>                                                                                                                                                                                                                                                                               | a Enter 2% of amount in column (e), line 24 | ▶ | 26a | 0 |
| b Prepare a list for your records to show the name of and amount contributed by each person (other than a governmental unit or publicly supported organization) whose total gifts for 2002 through 2005 exceeded the amount shown in line 26a. Do not file this list with your return. Enter the total of all these excess amounts |                                             | ▶ | 26b |   |
| c Total support for section 509(a)(1) test: Enter line 24, column (e)                                                                                                                                                                                                                                                              |                                             | ▶ | 26c |   |
| d Add Amounts from column (e) for lines 18 _____ 19 _____                                                                                                                                                                                                                                                                          |                                             | ▶ | 26d |   |
| 22 _____ 26b _____                                                                                                                                                                                                                                                                                                                 |                                             | ▶ | 26e |   |
| e Public support (line 26c minus line 26d total)                                                                                                                                                                                                                                                                                   |                                             | ▶ | 26f |   |
| f Public support percentage (line 26e (numerator) divided by line 26c (denominator))                                                                                                                                                                                                                                               |                                             | ▶ | 26f | % |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                |              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>27 Organizations described on line 12:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | a For amounts included in lines 15, 16, and 17 that were received from a "disqualified person," prepare a list for your records to show the name of, and total amounts received in each year from, each "disqualified person." |              |
| Do not file this list with your return. Enter the sum of such amounts for each year                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                |              |
| (2005) 53,000 (2004) 2,500 (2003) 0 (2002) 0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                |              |
| b For any amount included in line 17 that was received from each person (other than "disqualified persons"), prepare a list for your records to show the name of, and amount received for each year, that was more than the larger of (1) the amount on line 25 for the year or (2) \$5,000 (Include in the list organizations described in lines 5 through 11b, as well as individuals ) Do not file this list with your return. After computing the difference between the amount received and the larger amount described in (1) or (2), enter the sum of these differences (the excess amounts) for each year |                                                                                                                                                                                                                                |              |
| (2005) 0 (2004) 0 (2003) 0 (2002) 0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                |              |
| c Add Amounts from column (e) for lines 15 188,346 16 _____                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                |              |
| 17 24,545,685 20 _____ 21 _____                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                |              |
| d Add Line 27a total 55,500 and line 27b total _____                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                |              |
| e Public support (line 27c total minus line 27d total)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                |              |
| f Total support for section 509(a)(2) test Enter amount from line 23, column (e)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | ▶ 27f                                                                                                                                                                                                                          | 24,737,289   |
| g Public support percentage (line 27e (numerator) divided by line 27f (denominator))                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | ▶                                                                                                                                                                                                                              | 27g 99.7625% |
| h Investment income percentage (line 18, column (e) (numerator) divided by line 27f (denominator))                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | ▶                                                                                                                                                                                                                              | 27h 0.0132%  |

**28 Unusual Grants:** For an organization described in line 10, 11, or 12 that received any unusual grants during 2002 through 2005, prepare a list for your records to show, for each year, the name of the contributor, the date and amount of the grant, and a brief description of the nature of the grant Do not file this list with your return. Do not include these grants in line 15

**Part V Private School Questionnaire** (See page 9 of the instructions.)  
**(To be completed ONLY by schools that checked the box on line 6 in Part IV)**

|                                                                                                                                                                                                                                                                                                                                                                                                                                              | N/A        | Yes | No |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----|----|
| <b>29</b> Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body?                                                                                                                                                                                                                                          | <b>29</b>  |     |    |
| <b>30</b> Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships?                                                                                                                                                                                 | <b>30</b>  |     |    |
| <b>31</b> Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community it serves?<br>If "Yes," please describe, if "No," please explain (If you need more space, attach a separate statement ) | <b>31</b>  |     |    |
| <b>32</b> Does the organization maintain the following                                                                                                                                                                                                                                                                                                                                                                                       |            |     |    |
| <b>a</b> Records indicating the racial composition of the student body, faculty, and administrative staff?                                                                                                                                                                                                                                                                                                                                   | <b>32a</b> |     |    |
| <b>b</b> Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?                                                                                                                                                                                                                                                                                                             | <b>32b</b> |     |    |
| <b>c</b> Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?                                                                                                                                                                                                                                                                     | <b>32c</b> |     |    |
| <b>d</b> Copies of all material used by the organization or on its behalf to solicit contributions?                                                                                                                                                                                                                                                                                                                                          | <b>32d</b> |     |    |
| If you answered "No" to any of the above, please explain (If you need more space, attach a separate statement )                                                                                                                                                                                                                                                                                                                              |            |     |    |
| <b>33</b> Does the organization discriminate by race in any way with respect to:                                                                                                                                                                                                                                                                                                                                                             |            |     |    |
| <b>a</b> Students' rights or privileges?                                                                                                                                                                                                                                                                                                                                                                                                     | <b>33a</b> |     |    |
| <b>b</b> Admissions policies?                                                                                                                                                                                                                                                                                                                                                                                                                | <b>33b</b> |     |    |
| <b>c</b> Employment of faculty or administrative staff?                                                                                                                                                                                                                                                                                                                                                                                      | <b>33c</b> |     |    |
| <b>d</b> Scholarships or other financial assistance?                                                                                                                                                                                                                                                                                                                                                                                         | <b>33d</b> |     |    |
| <b>e</b> Educational policies?                                                                                                                                                                                                                                                                                                                                                                                                               | <b>33e</b> |     |    |
| <b>f</b> Use of facilities?                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>33f</b> |     |    |
| <b>g</b> Athletic programs?                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>33g</b> |     |    |
| <b>h</b> Other extracurricular activities?                                                                                                                                                                                                                                                                                                                                                                                                   | <b>33h</b> |     |    |
| If you answered "Yes" to any of the above, please explain (If you need more space, attach a separate statement.)                                                                                                                                                                                                                                                                                                                             |            |     |    |
| <b>34a</b> Does the organization receive any financial aid or assistance from a governmental agency?                                                                                                                                                                                                                                                                                                                                         | <b>34a</b> |     |    |
| <b>b</b> Has the organization's right to such aid ever been revoked or suspended?<br>If you answered "Yes" to either 34a or b, please explain using an attached statement                                                                                                                                                                                                                                                                    | <b>34b</b> |     |    |
| <b>35</b> Does the organization certify that it has complied with the applicable requirements of sections 4 01 through 4 05 of Rev Proc 75-50, 1975-2 C B 587, covering racial nondiscrimination? If "No," attach an explanation                                                                                                                                                                                                             | <b>35</b>  |     |    |

**Part VI-A Lobbying Expenditures by Electing Public Charities** (See page 10 of the instructions.)(To be completed **ONLY** by an eligible organization that filed Form 5768) **N/A**

|                |                                                    |                |                                                           |
|----------------|----------------------------------------------------|----------------|-----------------------------------------------------------|
| Check <b>a</b> | if the organization belongs to an affiliated group | Check <b>b</b> | if you checked "a" and "limited control" provisions apply |
|----------------|----------------------------------------------------|----------------|-----------------------------------------------------------|

  

| <b>Limits on Lobbying Expenditures</b><br>(The term "expenditures" means amounts paid or incurred )                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>(a)</b><br>Affiliated group<br>totals                                                                                                                                                                                                             | <b>(b)</b><br>To be completed<br>for all electing<br>organizations                                                                                                                                                                                   |           |  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|--|
| <b>36</b> Total lobbying expenditures to influence public opinion (grassroots lobbying)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>36</b>                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                      |           |  |
| <b>37</b> Total lobbying expenditures to influence a legislative body (direct lobbying)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>37</b>                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                      |           |  |
| <b>38</b> Total lobbying expenditures (add lines 36 and 37)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>38</b>                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                      |           |  |
| <b>39</b> Other exempt purpose expenditures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>39</b>                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                      |           |  |
| <b>40</b> Total exempt purpose expenditures (add lines 38 and 39)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b>40</b>                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                      |           |  |
| <b>41</b> Lobbying nontaxable amount Enter the amount from the following table-                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                      |           |  |
| <table style="width:100%; border: none;"> <tr> <td style="width:50%; vertical-align: top;"> <b>If the amount on line 40 is-</b><br/>           Not over \$500,000<br/>           Over \$500,000 but not over \$1,000,000<br/>           Over \$1,000,000 but not over \$1,500,000<br/>           Over \$1,500,000 but not over \$17,000,000<br/>           Over \$17,000,000         </td> <td style="width:50%; vertical-align: top;"> <b>The lobbying nontaxable amount is-</b><br/>           20% of the amount on line 40<br/>           \$100,000 plus 15% of the excess over \$500,000<br/>           \$175,000 plus 10% of the excess over \$1,000,000<br/>           \$225,000 plus 5% of the excess over \$1,500,000<br/>           \$1,000,000         </td> </tr> </table> | <b>If the amount on line 40 is-</b><br>Not over \$500,000<br>Over \$500,000 but not over \$1,000,000<br>Over \$1,000,000 but not over \$1,500,000<br>Over \$1,500,000 but not over \$17,000,000<br>Over \$17,000,000                                 | <b>The lobbying nontaxable amount is-</b><br>20% of the amount on line 40<br>\$100,000 plus 15% of the excess over \$500,000<br>\$175,000 plus 10% of the excess over \$1,000,000<br>\$225,000 plus 5% of the excess over \$1,500,000<br>\$1,000,000 | <b>41</b> |  |
| <b>If the amount on line 40 is-</b><br>Not over \$500,000<br>Over \$500,000 but not over \$1,000,000<br>Over \$1,000,000 but not over \$1,500,000<br>Over \$1,500,000 but not over \$17,000,000<br>Over \$17,000,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>The lobbying nontaxable amount is-</b><br>20% of the amount on line 40<br>\$100,000 plus 15% of the excess over \$500,000<br>\$175,000 plus 10% of the excess over \$1,000,000<br>\$225,000 plus 5% of the excess over \$1,500,000<br>\$1,000,000 |                                                                                                                                                                                                                                                      |           |  |
| <b>42</b> Grassroots nontaxable amount (enter 25% of line 41)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>42</b>                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                      |           |  |
| <b>43</b> Subtract line 42 from line 36. Enter -0- if line 42 is more than line 36                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>43</b>                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                      |           |  |
| <b>44</b> Subtract line 41 from line 38 Enter -0- if line 41 is more than line 38                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b>44</b>                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                      |           |  |

**Caution:** If there is an amount on either line 43 or line 44, you must file Form 4720.

**4-Year Averaging Period Under Section 501(h)**

(Some organizations that made a section 501(h) election do not have to complete all of the five columns below.

See the instructions for lines 45 through 50 on page 13 of the instructions.)

|                                                          | <b>Lobbying Expenditures During 4-Year Averaging Period</b> |                    |                    |                    |                     |
|----------------------------------------------------------|-------------------------------------------------------------|--------------------|--------------------|--------------------|---------------------|
| <b>Calendar year (or fiscal year beginning in) ▶</b>     | <b>(a)</b><br>2006                                          | <b>(b)</b><br>2005 | <b>(c)</b><br>2004 | <b>(d)</b><br>2003 | <b>(e)</b><br>Total |
| <b>45</b> Lobbying nontaxable amount                     |                                                             |                    |                    |                    |                     |
| <b>46</b> Lobbying ceiling amount (150% of line 45(e))   |                                                             |                    |                    |                    |                     |
| <b>47</b> Total lobbying expenditures                    |                                                             |                    |                    |                    |                     |
| <b>48</b> Grassroots nontaxable amount                   |                                                             |                    |                    |                    |                     |
| <b>49</b> Grassroots ceiling amount (150% of line 48(e)) |                                                             |                    |                    |                    |                     |
| <b>50</b> Grassroots lobbying expenditures               |                                                             |                    |                    |                    |                     |

**Part VI-B Lobbying Activity by Nonelecting Public Charities**

(For reporting only by organizations that did not complete Part VI-A) (See page 13 of the instructions.)

During the year, did the organization attempt to influence national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of

- a** Volunteers
- b** Paid staff or management (Include compensation in expenses reported on lines c through h.)
- c** Media advertisements
- d** Mailings to members, legislators, or the public
- e** Publications, or published or broadcast statements
- f** Grants to other organizations for lobbying purposes
- g** Direct contact with legislators, their staffs, government officials, or a legislative body
- h** Rallies, demonstrations, seminars, conventions, speeches, lectures, or any other means
- i** Total lobbying expenditures (Add lines c through h.)

If "Yes" to any of the above, also attach a statement giving a detailed description of the lobbying activities

| Yes                      | No                                  | Amount |
|--------------------------|-------------------------------------|--------|
| <input type="checkbox"/> | <input checked="" type="checkbox"/> |        |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> |        |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 0      |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 0      |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 0      |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 0      |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 0      |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 0      |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | 0      |

**Part VII** Information Regarding Transfers To and Transactions and Relationships With Noncharitable Exempt Organizations (See page 13 of the instructions.)

**51** Did the reporting organization directly or indirectly engage in any of the following with any other organization described in section 501(c) of the Code (other than section 501(c)(3) organizations) or in section 527, relating to political organizations?

- a Transfers from the reporting organization to a noncharitable exempt organization of**

- (i) Cash

- (ii) Other assets

- b Other transactions**

- (i) Sales or exchanges of assets with a noncharitable exempt organization.

- (ii) Purchases of assets from a noncharitable exempt organization

- (iii) Rental of facilities, equipment, or other assets

- (iv) Reimbursement arrangements

- (v) Loans or loan guarantees

- (vi) Performance of services or membership or fundraising solicitations**

- c** Sharing of facilities, equipment, mailing lists, other assets, or paid employees

d If the answer to any of the above is "Yes," complete the following schedule. Column (b) should always show the fair market value of the goods, other assets, or services given by the reporting organization. If the organization received less than fair market value in any transaction or sharing arrangement, show in column (d) the value of the goods, other assets, or services received.

|        | Yes | No |
|--------|-----|----|
| 51a(i) |     | X  |
| a(ii)  |     | X  |
| b(i)   |     | X  |
| b(ii)  |     | X  |
| b(iii) |     | X  |
| b(iv)  |     | X  |
| b(v)   |     | X  |
| b(vi)  |     | X  |
| c      |     | X  |

[illegible]

**52a** Is the organization directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in section 501(c) of the Code (other than section 501(c)(3)) or in section 527?

► ☐ Yes ☒ No

- b** If "Yes," complete the following schedule

[illegible]



Forms  
**990 / 990-PF****Mortgages and Other Notes Payable****2006**

For calendar year 2006, or tax year beginning , and ending

Name

Employer Identification Number

**NARCONON SOUTHERN CALIFORNIA****33-0911677****FORM 990, PART IV, LINE 64B - ADDITIONAL INFORMATION**

| Name of lender                        | Relationship to disqualified person |
|---------------------------------------|-------------------------------------|
| (1) <b>325 EAST FOURTH STREET LLC</b> |                                     |
| (2) <b>HOME BANK OF CALIFORNIA</b>    |                                     |
| (3) <b>325 EAST FOURTH STREET LLC</b> |                                     |
| (4) <b>HOME BANK</b>                  |                                     |
| (5)                                   |                                     |
| (6)                                   |                                     |
| (7)                                   |                                     |
| (8)                                   |                                     |
| (9)                                   |                                     |
| (10)                                  |                                     |

| Original amount borrowed | Date of loan | Maturity date | Repayment terms | Interest rate |
|--------------------------|--------------|---------------|-----------------|---------------|
| (1)                      |              |               |                 |               |
| (2)                      |              |               |                 |               |
| (3)                      |              |               |                 |               |
| (4)                      |              |               |                 |               |
| (5)                      |              |               |                 |               |
| (6)                      |              |               |                 |               |
| (7)                      |              |               |                 |               |
| (8)                      |              |               |                 |               |
| (9)                      |              |               |                 |               |
| (10)                     |              |               |                 |               |

| Security provided by borrower | Purpose of loan |
|-------------------------------|-----------------|
| (1)                           |                 |
| (2)                           |                 |
| (3)                           |                 |
| (4)                           |                 |
| (5)                           |                 |
| (6)                           |                 |
| (7)                           |                 |
| (8)                           |                 |
| (9)                           |                 |
| (10)                          |                 |

| Consideration furnished by lender | Balance due at beginning of year | Balance due at end of year |
|-----------------------------------|----------------------------------|----------------------------|
| (1)                               | <b>2,053,770</b>                 | <b>2,010,106</b>           |
| (2)                               | <b>741,784</b>                   | <b>609,911</b>             |
| (3)                               | <b>3,105,000</b>                 | <b>3,105,000</b>           |
| (4)                               |                                  | <b>474,932</b>             |
| (5)                               |                                  |                            |
| (6)                               |                                  |                            |
| (7)                               |                                  |                            |
| (8)                               |                                  |                            |
| (9)                               |                                  |                            |
| (10)                              |                                  |                            |
| <b>Totals</b>                     | <b>5,900,554</b>                 | <b>6,199,949</b>           |

Form **4562**  
 Department of the Treasury  
 Internal Revenue Service

**Depreciation and Amortization**  
 (Including Information on Listed Property)

OMB No 1545-0172

**2006**Attachment  
Sequence No **67**

▶ See separate instructions. ▶ Attach to your tax return.

Name(s) shown on return

**NARCONON SOUTHERN CALIFORNIA**

Identifying number

**33-0911677**

Business or activity to which this form relates

**INDIRECT DEPRECIATION****Part I Election To Expense Certain Property Under Section 179****Note:** If you have any listed property, complete Part V before you complete Part I.

|   |                                                                                                                                         |   |                |
|---|-----------------------------------------------------------------------------------------------------------------------------------------|---|----------------|
| 1 | Maximum amount. See the instructions for a higher limit for certain businesses                                                          | 1 | <b>108,000</b> |
| 2 | Total cost of section 179 property placed in service (see instructions)                                                                 | 2 |                |
| 3 | Threshold cost of section 179 property before reduction in limitation                                                                   | 3 | <b>430,000</b> |
| 4 | Reduction in limitation Subtract line 3 from line 2. If zero or less, enter -0-                                                         | 4 |                |
| 5 | Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions | 5 |                |

| (a) Description of property | (b) Cost (business use only)                                                                                       | (c) Elected cost |  |
|-----------------------------|--------------------------------------------------------------------------------------------------------------------|------------------|--|
| 6                           |                                                                                                                    |                  |  |
| 7                           | Listed property. Enter the amount from line 29                                                                     | 7                |  |
| 8                           | Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7                               | 8                |  |
| 9                           | Tentative deduction. Enter the smaller of line 5 or line 8                                                         | 9                |  |
| 10                          | Carryover of disallowed deduction from line 13 of your 2005 Form 4562                                              | 10               |  |
| 11                          | Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions) | 11               |  |
| 12                          | Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11                              | 12               |  |
| 13                          | Carryover of disallowed deduction to 2007. Add lines 9 and 10, less line 12                                        | 13               |  |

**Note:** Do not use Part II or Part III below for listed property. Instead, use Part V.**Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)**

|    |                                                                                                                                                                          |    |                |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|----------------|
| 14 | Special allowance for qualified New York Liberty or Gulf Opportunity Zone property (other than listed property) placed in service during the tax year (see instructions) | 14 |                |
| 15 | Property subject to section 168(f)(1) election                                                                                                                           | 15 |                |
| 16 | Other depreciation (including ACRS)                                                                                                                                      | 16 | <b>222,529</b> |

**Part III MACRS Depreciation (Do not include listed property.) (See instructions.)****Section A**

|    |                                                                                                                                                            |    |          |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------|----|----------|
| 17 | MACRS deductions for assets placed in service in tax years beginning before 2006                                                                           | 17 | <b>0</b> |
| 18 | If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/> |    |          |

**Section B-Assets Placed in Service During 2006 Tax Year Using the General Depreciation System**

| (a) Classification of property | (b) Month and year placed in service | (c) Basis for depreciation (business/investment use only-see instructions) | (d) Recovery period | (e) Convention | (f) Method | (g) Depreciation deduction |
|--------------------------------|--------------------------------------|----------------------------------------------------------------------------|---------------------|----------------|------------|----------------------------|
| 19a 3-year property            |                                      |                                                                            |                     |                |            |                            |
| b 5-year property              |                                      |                                                                            |                     |                |            |                            |
| c 7-year property              |                                      |                                                                            |                     |                |            |                            |
| d 10-year property             |                                      |                                                                            |                     |                |            |                            |
| e 15-year property             |                                      |                                                                            |                     |                |            |                            |
| f 20-year property             |                                      |                                                                            |                     |                |            |                            |
| g 25-year property             |                                      |                                                                            | 25 yrs              |                | S/L        |                            |
| h Residential rental property  |                                      |                                                                            | 27.5 yrs.           | MM             | S/L        |                            |
|                                |                                      |                                                                            | 27 5 yrs.           | MM             | S/L        |                            |
| i Nonresidential real property |                                      |                                                                            | 39 yrs              | MM             | S/L        |                            |
|                                |                                      |                                                                            |                     | MM             | S/L        |                            |

**Section C-Assets Placed in Service During 2006 Tax Year Using the Alternative Depreciation System**

|                |  |  |         |    |     |  |
|----------------|--|--|---------|----|-----|--|
| 20a Class life |  |  |         |    | S/L |  |
| b 12-year      |  |  | 12 yrs. |    | S/L |  |
| c 40-year      |  |  | 40 yrs  | MM | S/L |  |

**Part IV Summary (see instructions)**

|    |                                                                                                                                                                                                     |    |                |
|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|----------------|
| 21 | Listed property. Enter amount from line 28                                                                                                                                                          | 21 |                |
| 22 | Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations-see instr | 22 | <b>222,529</b> |
| 23 | For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs                                                             | 23 |                |

For Paperwork Reduction Act Notice, see separate instructions.

Form **4562** (2006)

**Federal Statements****Statement 1 - Form 990, Line 10c - Sales of Inventory**

| <u>Description</u>    | <u>Gross<br/>Sales</u> | <u>COGS</u>        | <u>Gross<br/>Profit</u> |
|-----------------------|------------------------|--------------------|-------------------------|
| BOOKSTORE SALES - - - | \$ <u>-225,059</u>     | \$ <u>-118,340</u> | \$ <u>-106,719</u>      |
| TOTAL                 | \$ <u>225,059</u>      | \$ <u>118,340</u>  | \$ <u>106,719</u>       |

Statement 2 - Form 990, Part I, Line 16 - Payments to Affiliates

| Bus Name<br>Address                                                    | Purpose            | Amount              |
|------------------------------------------------------------------------|--------------------|---------------------|
| NARCONON INTERNATIONAL<br>7060 HOLLYWOOD BLVD.<br>LOS ANGELES CA 90028 | TRADEMARK LIC. FEE | \$ 1,029,807        |
| TOTAL                                                                  |                    | <u>\$ 1,029,807</u> |

NNSOCAL NARCONON SOUTHERN CALIFORNIA  
33-0911677  
FYE: 12/31/2006

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Federal Statements

Statement 3 - Form 990, Part II, Line 22b - Other Grants and Allocations

| Name<br>Address                   | Date of<br>Gift | Description of<br>Property | Relationship<br>to Org | Class of<br>Activity | Cash<br>Contrib | NonCash<br>Contrib | Book<br>Value | BV<br>Explanth | FMV<br>Explntn |
|-----------------------------------|-----------------|----------------------------|------------------------|----------------------|-----------------|--------------------|---------------|----------------|----------------|
| WARNER SPRINGS RESOURCE CENTER    |                 |                            |                        | COMMUNITY RELATIONS  | \$ 1,000        | \$                 |               |                |                |
| 30951 HIGHWAY 79                  |                 |                            |                        |                      |                 |                    |               |                |                |
| WARNER SPRINGS CA 92086           |                 |                            |                        |                      |                 |                    |               |                |                |
| WARNER FOOTBALL ASB               |                 |                            |                        | COMMUNITY RELATIONS  |                 |                    |               |                |                |
| 30951 HIGHWAY 79                  |                 |                            |                        |                      |                 |                    | 650           |                |                |
| WARNER SPRINGS CA 92086           |                 |                            |                        |                      |                 |                    |               |                |                |
| NATIONAL POLICE RODEO ASSN        |                 |                            |                        | COMMUNITY RELATIONS  |                 |                    |               |                |                |
| PO BOX 755                        |                 |                            |                        |                      |                 |                    | 750           |                |                |
| GARDEN GROVE CA 92842             |                 |                            |                        |                      |                 |                    |               |                |                |
| WARNER SPRINGS COMM RESOURCE BOAR |                 |                            |                        | COMMUNITY RELATIONS  |                 |                    |               |                |                |
| 30240 HIGHWAY 78                  |                 |                            |                        |                      |                 |                    | 400           |                |                |
| SANTA YSABEL CA 92070             |                 |                            |                        |                      |                 |                    |               |                |                |
| TRUE VALUE                        |                 |                            |                        | COMMUNITY RELATIONS  |                 |                    |               |                |                |
| 169 CLOVER ST                     |                 |                            |                        |                      |                 |                    | 250           |                |                |
| CALIENTE NV 89008                 |                 |                            |                        |                      |                 |                    |               |                |                |

NNSOCAL NARCONON SOUTHERN CALIFORNIA  
 33-0911677  
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Federal Statements

Statement 3 - Form 990, Part II, Line 22b - Other Grants and Allocations (continued)

| Name<br>Address | Date of<br>Gift | Description of<br>Property | Relationship<br>to Org | Class of<br>Activity |                    |               | FMV<br>Explanth |
|-----------------|-----------------|----------------------------|------------------------|----------------------|--------------------|---------------|-----------------|
|                 |                 |                            |                        | Cash<br>Contrib      | NonCash<br>Contrib | Book<br>Value |                 |
| TOTAL           |                 |                            |                        | \$ 3,050             | \$ 0               | \$ 0          |                 |

Statement 4 - Form 990, Part II, Line 25a - Compensation of Current Officers

| Name                              | Program<br>Services | Management &<br>General | Fundraising |
|-----------------------------------|---------------------|-------------------------|-------------|
|                                   | \$                  | \$                      | \$          |
| EXPENSES                          |                     |                         |             |
| DAVID WORTHINGTON<br>COMPENSATION |                     | 108,600                 |             |
| JULIE BRYANT<br>COMPENSATION      | 87,567              |                         | 9,730       |
| BENEFIT PLAN CONTRIBUTION         | 4,367               |                         | 403         |
| LAWRENCE TRAHANT<br>COMPENSATION  | 97,254              |                         |             |
| BENEFIT PLAN CONTRIBUTION         | 1,944               |                         |             |
| EXPENSE ACCOUNT                   | 12,093              |                         |             |
| MICHAEL KOBRIN<br>COMPENSATION    | 51,564              | 51,563                  |             |
| NICHOLAS KENT<br>COMPENSATION     | 64,371              | 64,371                  |             |
| TOTAL                             | \$ 319,160          | \$ 224,534              | \$ 10,133   |

**Federal Statements****Statement 5 - Form 990, Part II, Line 43 - Other Functional Expenses**

| Description               | Total<br>Expenses | Program<br>Service | Mgt &<br>General | Fund-<br>Raising |
|---------------------------|-------------------|--------------------|------------------|------------------|
| EXPENSES                  | \$ -              | \$ -               | \$ -             | \$ -             |
| REFERRAL COMMISSIONS      | 271,758           | 247,305            |                  | 24,453           |
| INSURANCE                 | 85,764            | 70,335             | 15,189           | 240              |
| TAXES, DUES & FEES        | 21,784            | 17,868             | 3,855            | 61               |
| LICENSES & PERMITS        | 3,466             | 3,466              |                  |                  |
| UTILITIES                 | 209,193           | 171,559            | 37,048           | 586              |
| REPAIRS & MAINTENANCE     | 144,402           | 118,424            | 25,574           | 404              |
| DISSEMINATION             | 215,367           | 215,367            |                  |                  |
| TRAVEL AND TRANSPORTATION | 338,342           | 277,474            | 59,921           | 947              |
| BANK & CREDIT CARD FEES   | 111,667           | 95,053             | 16,614           |                  |
| PROFESSIONAL FEES         | 41,514            | 41,514             |                  |                  |
| STAFF ENHANCEMENT         | 192,892           | 158,191            | 34,161           | 540              |
| FOOD                      | 986,269           | 986,269            |                  |                  |
| CLIENT MEDICAL            | 539,905           | 539,905            |                  |                  |
| VITAMINS                  | 43,920            | 43,920             |                  |                  |
| OTHER PROGRAM COSTS       | 73,882            | 73,882             |                  |                  |
| AMORTIZATION              | 3,211             | 2,633              | 569              | 9                |
| TOTAL                     | \$ 3,283,336      | \$ 3,063,165       | \$ 192,931       | \$ 27,240        |

**Statement 6 - Form 990, Part III, Line a - Statement of Program Service Accomplishments****Description**

THE ORGANIZATION OPERATES THREE DRUG REHABILITATION FACILITIES DELIVERING THE NARCONON-DRUG-REHABILITATION PROGRAM UNDER A TRADEMARK LICENSE FROM NARCONON INTERNATIONAL. THIS UNIQUE 3-TO-5 MONTH PROGRAM INCLUDES THE DETOXIFICATION PROCEDURE AND COURSES IN LIFE SKILLS. DURING THE YEAR APPROXIMATELY 300 PERSONS COMPLETED THE PROGRAM, ENABLING THEM TO LEAD MORE ETHICAL AND DRUG-FREE LIVES.

**Statement 7 - Form 990, Part III, Line c - Statement of Program Service Accomplishments****Description**

ANOTHER OF THE ORGANIZATION'S PURPOSES IS TO CONDUCT BROAD PUBLIC CAMPAIGNS TO RAISE PUBLIC AWARENESS TO THE EXTENT AND EFFECTS OF SUBSTANCE ABUSE AND THE NEED FOR PREVENTION AND REHABILITATION. DURING THE YEAR OVER 350,000 INFORMATIONAL BROCHURES AND PROMOTIONAL FLIERS WERE SENT TO THE GENERAL PUBLIC. EXTENSIVE INTERNET SITES DESCRIBING THE PROBLEMS OF AND SOLUTIONS FOR DRUG AND ALCOHOL ABUSE ARE MAINTAINED AND THESE RECEIVED APPROXIMATELY 5,000,000 VISITS DURING THE YEAR.



**Federal Statements****Statement 8 - Form 990, Part IV, Line 57 - Land, Buildings, and Equipment**

| <u>Description</u>      | <u>Beginning<br/>of Year</u> | <u>Accum<br/>Deprec</u> | <u>End of<br/>Year</u> | <u>Accum<br/>Deprec</u> |
|-------------------------|------------------------------|-------------------------|------------------------|-------------------------|
| LAND IMPROVEMENTS       | \$ 103,021                   | \$ 15,742               | \$ 141,716             | \$ 23,899               |
| BUILDINGS               | 2,604,950                    | 134,931                 | 3,012,105              | 207,294                 |
| BUILDING IMPROVEMENTS   | 180,468                      | 10,363                  | 214,175                | 15,615                  |
| LEASEHOLD IMPROVEMENTS  | 41,416                       | 9,296                   | 75,827                 | 22,059                  |
| COMPUTER & OFFICE EQUIP | 51,626                       | 29,411                  | 76,339                 | 42,377                  |
| FURNITURE & FIXTURES    | 182,055                      | 65,348                  | 210,212                | 92,943                  |
| MOTOR VEHICLES          | 210,128                      | 109,324                 | 384,255                | 182,534                 |
| PLANT & TECHNICAL EQUIP | 53,992                       | 15,518                  | 82,146                 | 25,741                  |
| LAND                    | 3,592,596                    |                         | 3,852,425              |                         |
| TOTAL                   | <u>\$ 7,020,252</u>          | <u>\$ 389,933</u>       | <u>\$ 8,049,200</u>    | <u>\$ 612,462</u>       |

**Statement 9 - Form 990, Part IV, Line 58 - Other Assets**

| <u>Description</u>       | <u>Beginning<br/>of Year</u> | <u>End of<br/>Year</u> |
|--------------------------|------------------------------|------------------------|
| SECURITY DEPOSIT         | \$ 13,700                    | \$ 27,008              |
| CONSTRUCTION IN PROGRESS | 303,116                      | 486,658                |
| UNAMORTIZED LOAN COSTS   | 18,631                       | 15,419                 |
| REFUNDABLE PAYROLL TAXES |                              | 23,251                 |
| TOTAL                    | <u>\$ 335,447</u>            | <u>\$ 552,336</u>      |

**Statement 10 - Form 990, Part IV, Line 62 - Deferred Revenue**

| <u>Description</u> | <u>Beginning<br/>of Year</u> | <u>End of<br/>Year</u> |
|--------------------|------------------------------|------------------------|
| DEFERRED REVENUE   | \$ 88,500                    | \$ 78,000              |
| TOTAL              | <u>\$ 88,500</u>             | <u>\$ 78,000</u>       |

**Statement 11 - Form 990, Part IV, Line 65 - Other Liabilities**

| <u>Description</u>            | <u>Beginning<br/>of Year</u> | <u>End of<br/>Year</u> |
|-------------------------------|------------------------------|------------------------|
| INSTALLMENT CONTRACTS PAYABLE | \$ 63,023                    | \$ 88,706              |
| TOTAL                         | <u>\$ 63,023</u>             | <u>\$ 88,706</u>       |

**Federal Statements****Statement 12 - Form 990, Part IV-A - Other Revenue Included on Financial Statements**

| <u>Description</u>             | <u>Amount</u>            |
|--------------------------------|--------------------------|
| COST OF PROGRAM MATERIALS SOLD | \$ <u>118,340</u>        |
| TOTAL - - - - -                | \$ <u><u>118,340</u></u> |

**Statement 13 - Form 990, Part IV-B - Other Expenses included on Financial Statements**

| <u>Description</u>             | <u>Amount</u>            |
|--------------------------------|--------------------------|
| COST OF PROGRAM MATERIALS SOLD | \$ <u>118,340</u>        |
| TOTAL                          | \$ <u><u>118,340</u></u> |

NNSOCAL NARCONON SOUTHERN CALIFORNIA  
33-0911677  
FYE: 12/31/2006

**Federal Statements**

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**Statement 14 - Form 990, Part V-A, Line 75c - Compensation from Related Organizations**

| Payee Name        | Organization EIN | Related Organization Name1 | Relationship      | Compensation | Benefits | Expenses | Related Organization Name2 | Compensation Description |
|-------------------|------------------|----------------------------|-------------------|--------------|----------|----------|----------------------------|--------------------------|
| DAVID WORTHINGTON | 65-1238009       | NARCONON WESTERN           | UNITED STATES     | 17,900       |          |          |                            |                          |
| NICHOLAS KENT     | 65-1238009       | MANAGEMENT ORG             | UNITED STATES     | 24,850       |          |          |                            |                          |
| MICHAEL KOBRIN    | 65-1238009       | NARCONON WESTERN           | UNITED STATES     | 24,850       |          |          |                            |                          |
| KAREN SEAGAL      | 95-4188814       | ABLE INTERNATIONAL         | UMBRELLA ORG      |              |          |          |                            |                          |
| CLARKE CARR       | 95-2769582       | NARCONON INTERNATIONAL     | INTERNATIONAL ORG |              |          |          |                            |                          |

FYE: 12/31/2006

| Asset                                     | Date In Service | Property Description            | * | Tax Cost  | Tax-Meth Conv | Tax Period | Tax Prior Depreciation | Tax Current Depreciation | Tax End Depr | Tax Net Book Value |
|-------------------------------------------|-----------------|---------------------------------|---|-----------|---------------|------------|------------------------|--------------------------|--------------|--------------------|
| <b>Group: Building - Bouquet</b>          |                 |                                 |   |           |               |            |                        |                          |              |                    |
| 124                                       | 3/17/06         | Trailer                         |   | 5,000     | S/L-MO        | 7 0        | 0                      | 536                      | 536          | 4,464              |
|                                           |                 | Building - Bouquet              |   | 5,000     |               |            | 0                      | 536                      | 536          | 4,464              |
| <b>Group: Building - Rainbow</b>          |                 |                                 |   |           |               |            |                        |                          |              |                    |
| 31                                        | 10/15/04        | Buildings - Rainbow             |   | 1,884,763 | S/L-MO        | 40 0       | 58,898                 | 47,119                   | 106,017      | 1,778,746          |
|                                           |                 | Building - Rainbow              |   | 1,884,763 |               |            | 58,898                 | 47,119                   | 106,017      | 1,778,746          |
| <b>Group: Building - Warner</b>           |                 |                                 |   |           |               |            |                        |                          |              |                    |
| 4                                         | 12/31/01        | Building - Warner               |   | 642,266   | S/L-MO        | 40.0       | 68,241                 | 16,057                   | 84,298       | 557,968            |
|                                           |                 | Building - Warner               |   | 642,266   |               |            | 68,241                 | 16,057                   | 84,298       | 557,968            |
| <b>Group: Building - Warner House</b>     |                 |                                 |   |           |               |            |                        |                          |              |                    |
| 6                                         | 1/01/02         | Housing Structure               |   | 77,921    | S/L-MO        | 40 0       | 7,792                  | 1,948                    | 9,740        | 68,181             |
|                                           |                 | Building - Warner House         |   | 77,921    |               |            | 7,792                  | 1,948                    | 9,740        | 68,181             |
| <b>Group: Building - Wrnr Staff Hou</b>   |                 |                                 |   |           |               |            |                        |                          |              |                    |
| 125                                       | 4/20/06         | Warner Staff House - Structure  |   | 402,155   | S/L-MO        | 40 0       | 0                      | 6,703                    | 6,703        | 395,452            |
|                                           |                 | Building - Wrnr Staff Hou       |   | 402,155   |               |            | 0                      | 6,703                    | 6,703        | 395,452            |
| <b>Group: Building Imp - Rainbow</b>      |                 |                                 |   |           |               |            |                        |                          |              |                    |
| 48                                        | 10/15/04        | Building Additions - Rainbow    |   | 6,834     | S/L-MO        | 40 0       | 214                    | 171                      | 385          | 6,449              |
| 49                                        | 3/23/05         | Kitchen Wiring                  |   | 7,480     | S/L-MO        | 40 0       | 94                     | 187                      | 281          | 7,199              |
| 50                                        | 8/18/05         | Sprinkler system                |   | 1,200     | S/L-MO        | 40 0       | 15                     | 30                       | 45           | 1,155              |
|                                           |                 | Building Imp - Rainbow          |   | 15,514    |               |            | 323                    | 388                      | 711          | 14,803             |
| <b>Group: Building Imp - Warner</b>       |                 |                                 |   |           |               |            |                        |                          |              |                    |
| 5                                         | 12/31/02        | Bldg Additions - Warner         |   | 75,018    | S/L-MO        | 40 0       | 6,564                  | 1,875                    | 8,439        | 66,579             |
| 7                                         | 12/31/03        | Bldg Additions - Warner         |   | 47,014    | S/L-MO        | 40 0       | 2,939                  | 1,175                    | 4,114        | 42,900             |
| 41                                        | 7/01/05         | Renovations Wood/Tile/Bathrooms |   | 42,921    | S/L-MO        | 40 0       | 537                    | 1,073                    | 1,610        | 41,311             |
| 127                                       | 7/31/06         | Electrical Improvements         |   | 3,633     | S/L-MO        | 15 0       | 0                      | 101                      | 101          | 3,532              |
| 126                                       | 8/31/06         | HVAC Overhaul                   |   | 27,474    | S/L-MO        | 15 0       | 0                      | 611                      | 611          | 26,863             |
| 128                                       | 10/17/06        | AC Condenser                    |   | 2,600     | S/L-MO        | 15 0       | 0                      | 29                       | 29           | 2,571              |
|                                           |                 | Building Imp - Warner           |   | 198,660   |               |            | 10,040                 | 4,864                    | 14,904       | 183,756            |
| <b>Group: Computer &amp; Office Equip</b> |                 |                                 |   |           |               |            |                        |                          |              |                    |

## Fixed Assets and Depreciation - Form 990

| Asset                                      | Date In Service | Property Description          | * | Tax Cost | Tax-Meth | Tax Period | Tax Prior Depreciation | Tax Current Depreciation | Tax End Depr | Tax Net Book Value |
|--------------------------------------------|-----------------|-------------------------------|---|----------|----------|------------|------------------------|--------------------------|--------------|--------------------|
| Group: Computer & Office Equip (continued) |                 |                               |   |          |          |            |                        |                          |              |                    |
| 9                                          | 7/01/00         | Computer & Office Equip       |   | 6,652    | S/L-MO   | 5 0        | 6,652                  | 0                        | 6,652        | 0                  |
| 10                                         | 12/31/00        | Computer & Office Equip       |   | 1,414    | S/L-MO   | 5 0        | 1,414                  | 0                        | 1,414        | 0                  |
| 11                                         | 12/31/01        | Computer & Office Equip       |   | 7,652    | S/L-MO   | 5 0        | 7,215                  | 437                      | 7,652        | 0                  |
| 12                                         | 12/31/02        | Computer & Office Equip       |   | 1,750    | S/L-MO   | 5 0        | 1,225                  | 350                      | 1,575        | 175                |
| 24                                         | 12/31/03        | Computer & Office Equip       |   | 18,851   | S/L-MO   | 5 0        | 9,425                  | 3,771                    | 13,196       | 5,655              |
| 34                                         | 6/30/04         | Computer & Office Equipment   |   | 9,748    | S/L-MO   | 5 0        | 2,924                  | 1,950                    | 4,874        | 4,874              |
| 51                                         | 1/22/05         | Computer Equip - Comp Central |   | 1,011    | S/L-MO   | 5 0        | 101                    | 202                      | 303          | 708                |
| 52                                         | 6/27/05         | Computer Equip - Best Buy     |   | 766      | S/L-MO   | 5 0        | 77                     | 153                      | 230          | 536                |
| 53                                         | 9/23/05         | Computer Equip - Dell         |   | 748      | S/L-MO   | 5 0        | 75                     | 150                      | 225          | 523                |
| 54                                         | 12/18/05        | Computer Equip - Best Buy     |   | 1,521    | S/L-MO   | 5 0        | 152                    | 304                      | 456          | 1,065              |
| 55                                         | 12/28/05        | Computer Equip - Fry's        |   | 1,514    | S/L-MO   | 5 0        | 151                    | 303                      | 454          | 1,060              |
| 129                                        | 1/03/06         | Treasury Computer             |   | 1,866    | S/L-MO   | 3 0        | 0                      | 622                      | 622          | 1,244              |
| 130                                        | 1/10/06         | Averatec Notebook PC          |   | 920      | S/L-MO   | 3 0        | 0                      | 307                      | 307          | 613                |
| 131                                        | 1/27/06         | New Computer - Best Buy       |   | 1,231    | S/L-MO   | 3 0        | 0                      | 376                      | 376          | 855                |
| 132                                        | 2/01/06         | Computer SDA                  |   | 1,373    | S/L-MO   | 3 0        | 0                      | 420                      | 420          | 953                |
| 133                                        | 2/08/06         | HP Computer                   |   | 541      | S/L-MO   | 3 0        | 0                      | 165                      | 165          | 376                |
| 134                                        | 2/08/06         | Laptop                        |   | 776      | S/L-MO   | 3 0        | 0                      | 237                      | 237          | 539                |
| 135                                        | 2/13/06         | Computer USAA                 |   | 2,591    | S/L-MO   | 3 0        | 0                      | 792                      | 792          | 1,799              |
| 136                                        | 3/04/06         | New Computer Treasury         |   | 1,926    | S/L-MO   | 3 0        | 0                      | 535                      | 535          | 1,391              |
| 137                                        | 3/15/06         | Laptop for DLA                |   | 555      | S/L-MO   | 3 0        | 0                      | 154                      | 154          | 401                |
| 138                                        | 4/10/06         | Canon Copier                  |   | 646      | S/L-MO   | 5 0        | 0                      | 97                       | 97           | 549                |
| 139                                        | 5/09/06         | Canon Copier                  |   | 646      | S/L-MO   | 5 0        | 0                      | 86                       | 86           | 560                |
| 140                                        | 5/09/06         | Desktop Computer              |   | 1,024    | S/L-MO   | 3 0        | 0                      | 228                      | 228          | 796                |
| 141                                        | 5/25/06         | Laptop Computer DED           |   | 840      | S/L-MO   | 3 0        | 0                      | 163                      | 163          | 677                |
| 142                                        | 7/11/06         | Desktop Computer              |   | 1,024    | S/L-MO   | 3 0        | 0                      | 171                      | 171          | 853                |
| 143                                        | 8/10/06         | Desktop Computer              |   | 787      | S/L-MO   | 3 0        | 0                      | 109                      | 109          | 678                |
| 144                                        | 8/10/06         | Sharp All-in-one              |   | 646      | S/L-MO   | 5 0        | 0                      | 54                       | 54           | 592                |
| 145                                        | 8/10/06         | Laptop Computer               |   | 974      | S/L-MO   | 3 0        | 0                      | 135                      | 135          | 839                |
| 146                                        | 8/10/06         | Laptop Computer               |   | 1,082    | S/L-MO   | 3 0        | 0                      | 150                      | 150          | 932                |
| 147                                        | 9/11/06         | Computer Equip - Dell         |   | 2,076    | S/L-MO   | 3 0        | 0                      | 231                      | 231          | 1,845              |
| 148                                        | 9/11/06         | Desktop Computer              |   | 884      | S/L-MO   | 3 0        | 0                      | 98                       | 98           | 786                |
| 149                                        | 9/11/06         | Desktop Computer              |   | 894      | S/L-MO   | 3 0        | 0                      | 99                       | 99           | 795                |
| 150                                        | 10/14/06        | Computer Equipment            |   | 1,408    | S/L-MO   | 3 0        | 0                      | 117                      | 117          | 1,291              |
|                                            |                 |                               |   |          |          |            | 29,411                 | 12,966                   | 42,377       | 33,960             |
| Computer & Office Equip                    |                 |                               |   |          |          |            |                        |                          |              |                    |

**Group: Furniture & Fixtures**

|    |          |                          |  |        |        |     |        |       |        |        |
|----|----------|--------------------------|--|--------|--------|-----|--------|-------|--------|--------|
| 13 | 7/01/00  | Furniture & Fixtures     |  | 27,251 | S/L-MO | 7 0 | 21,411 | 3,893 | 25,304 | 1,947  |
| 14 | 12/31/01 | Furniture                |  | 18,238 | S/L-MO | 7 0 | 13,027 | 2,605 | 15,632 | 2,606  |
| 15 | 12/31/02 | Furniture                |  | 16,508 | S/L-MO | 7 0 | 8,254  | 2,358 | 10,612 | 5,896  |
| 25 | 12/31/03 | Furniture & Fixtures     |  | 24,077 | S/L-MO | 7 0 | 8,599  | 3,440 | 12,039 | 12,038 |
| 33 | 6/30/04  | Furniture & fixtures     |  | 50,403 | S/L-MO | 7 0 | 10,801 | 7,200 | 18,001 | 32,402 |
| 56 | 3/14/05  | Curtains                 |  | 450    | S/L-MO | 7 0 | 32     | 64    | 96     | 354    |
| 57 | 3/15/05  | Office Furn - A B E Corp |  | 588    | S/L-MO | 7 0 | 42     | 84    | 126    | 462    |
| 58 | 3/31/05  | Bunk Bed                 |  | 300    | S/L-MO | 7 0 | 21     | 43    | 64     | 236    |
| 59 | 4/08/05  | Furniture                |  | 4,922  | S/L-MO | 7 0 | 352    | 703   | 1,055  | 3,867  |
| 60 | 4/14/05  | Assist Table             |  | 491    | S/L-MO | 7 0 | 35     | 70    | 105    | 386    |
| 61 | 5/03/05  | Dressers                 |  | 1,134  | S/L-MO | 7 0 | 81     | 162   | 243    | 891    |

## Fixed Assets and Depreciation - Form 990

| Asset                                              | Date In Service | Property Description                 | * | Tax Cost | Tax-Meth Conv | Tax Period | Tax Prior Depreciation | Tax Current Depreciation | Tax End Depr | Tax Net Book Value |
|----------------------------------------------------|-----------------|--------------------------------------|---|----------|---------------|------------|------------------------|--------------------------|--------------|--------------------|
| <b>Group: Furniture &amp; Fixtures (continued)</b> |                 |                                      |   |          |               |            |                        |                          |              |                    |
| 62                                                 | 5/03/05         | Lighting Fixtures                    |   | 1,569    | S/L-MO        | 70         | 112                    | 224                      | 336          | 1,233              |
| 63                                                 | 5/31/05         | Dressers - Ikea                      |   | 482      | S/L-MO        | 70         | 34                     | 69                       | 103          | 379                |
| 64                                                 | 6/13/05         | TV/DVD Player - Best Buy             |   | 345      | S/L-MO        | 70         | 25                     | 49                       | 74           | 271                |
| 65                                                 | 7/04/05         | Dressers - Ikea                      |   | 963      | S/L-MO        | 70         | 69                     | 138                      | 207          | 756                |
| 66                                                 | 7/04/05         | Dressers - Ikea                      |   | 2,087    | S/L-MO        | 70         | 149                    | 298                      | 447          | 1,640              |
| 67                                                 | 7/06/05         | Dressers - Ikea                      |   | 1,308    | S/L-MO        | 70         | 93                     | 187                      | 280          | 1,028              |
| 68                                                 | 7/06/05         | 2 TV's - Best Buy                    |   | 749      | S/L-MO        | 70         | 54                     | 107                      | 161          | 588                |
| 69                                                 | 7/06/05         | 2 Sectionals                         |   | 2,003    | S/L-MO        | 70         | 143                    | 286                      | 429          | 1,574              |
| 70                                                 | 8/03/05         | TV - Best Buy                        |   | 288      | S/L-MO        | 70         | 21                     | 41                       | 62           | 226                |
| 71                                                 | 8/08/05         | 5 Dressers, 1 Bunk Bed - Ikea        |   | 963      | S/L-MO        | 70         | 69                     | 138                      | 207          | 756                |
| 72                                                 | 8/11/05         | Carpet                               |   | 771      | S/L-MO        | 70         | 55                     | 110                      | 165          | 606                |
| 73                                                 | 8/11/05         | 18 Mattresses Nevada Set-up          |   | 2,535    | S/L-MO        | 70         | 181                    | 362                      | 543          | 1,992              |
| 74                                                 | 8/11/05         | Beds                                 |   | 3,132    | S/L-MO        | 70         | 224                    | 447                      | 671          | 2,461              |
| 75                                                 | 8/17/05         | Bed                                  |   | 427      | S/L-MO        | 70         | 31                     | 61                       | 92           | 335                |
| 76                                                 | 8/24/05         | 2 Bunks, 4 Dressers - Ikea           |   | 963      | S/L-MO        | 70         | 69                     | 138                      | 207          | 756                |
| 77                                                 | 8/25/05         | Dressers etc                         |   | 1,348    | S/L-MO        | 70         | 96                     | 193                      | 289          | 1,059              |
| 78                                                 | 8/25/05         | Office Furniture                     |   | 770      | S/L-MO        | 70         | 55                     | 110                      | 165          | 605                |
| 79                                                 | 9/02/05         | Dressers - Ikea                      |   | 1,000    | S/L-MO        | 70         | 71                     | 143                      | 214          | 786                |
| 80                                                 | 9/15/05         | Dressers                             |   | 274      | S/L-MO        | 70         | 20                     | 39                       | 59           | 215                |
| 81                                                 | 9/15/05         | Sofa - Levitz                        |   | 918      | S/L-MO        | 70         | 66                     | 131                      | 197          | 721                |
| 82                                                 | 9/19/05         | Assist Table                         |   | 511      | S/L-MO        | 70         | 36                     | 73                       | 109          | 402                |
| 83                                                 | 9/21/05         | Couch, Table                         |   | 1,033    | S/L-MO        | 70         | 74                     | 148                      | 222          | 811                |
| 84                                                 | 9/22/05         | Dressers - Big Lots                  |   | 279      | S/L-MO        | 70         | 20                     | 40                       | 60           | 219                |
| 85                                                 | 9/26/05         | Bunk Beds - Ikea                     |   | 805      | S/L-MO        | 70         | 57                     | 115                      | 172          | 633                |
| 86                                                 | 9/28/05         | Furniture - New South Point Apt      |   | 2,993    | S/L-MO        | 70         | 214                    | 428                      | 642          | 2,351              |
| 87                                                 | 10/03/05        | Target - New Apt Set-up              |   | 1,201    | S/L-MO        | 70         | 86                     | 172                      | 258          | 943                |
| 88                                                 | 10/03/05        | 4 Dressers - Ikea                    |   | 642      | S/L-MO        | 70         | 46                     | 92                       | 138          | 504                |
| 89                                                 | 10/05/05        | Assist Table                         |   | 505      | S/L-MO        | 70         | 36                     | 72                       | 108          | 397                |
| 90                                                 | 10/08/05        | 2 Refrigerators for Office           |   | 498      | S/L-MO        | 70         | 36                     | 71                       | 107          | 391                |
| 91                                                 | 10/14/05        | Bedroom Furniture - New House Set-up |   | 1,974    | S/L-MO        | 70         | 141                    | 282                      | 423          | 1,551              |
| 92                                                 | 10/17/05        | TV's for Staff Houses                |   | 792      | S/L-MO        | 70         | 56                     | 113                      | 169          | 623                |
| 93                                                 | 10/26/05        | Bunk Beds                            |   | 247      | S/L-MO        | 70         | 17                     | 35                       | 52           | 195                |
| 94                                                 | 10/27/05        | Furniture                            |   | 141      | S/L-MO        | 70         | 10                     | 20                       | 30           | 111                |
| 95                                                 | 10/27/05        | Dressers - Ikea                      |   | 1,691    | S/L-MO        | 70         | 121                    | 242                      | 363          | 1,328              |
| 96                                                 | 11/22/05        | Dressers - Ikea                      |   | 1,216    | S/L-MO        | 70         | 87                     | 174                      | 261          | 955                |
| 97                                                 | 12/06/05        | Courseroom Chairs                    |   | 270      | S/L-MO        | 70         | 19                     | 39                       | 58           | 212                |
| 151                                                | 2/28/06         | Couches, bookshelves, Desk etc       |   | 650      | S/L-MO        | 70         | 0                      | 77                       | 77           | 573                |
| 152                                                | 3/07/06         | Bed & Mattress Set                   |   | 487      | S/L-MO        | 70         | 0                      | 58                       | 58           | 429                |
| 153                                                | 3/26/06         | 3 Assist Tables                      |   | 1,335    | S/L-MO        | 70         | 0                      | 143                      | 143          | 1,192              |
| 154                                                | 5/09/06         | Hon Filing Cabinet                   |   | 563      | S/L-MO        | 70         | 0                      | 54                       | 54           | 509                |
| 155                                                | 5/13/06         | Safe                                 |   | 453      | S/L-MO        | 70         | 0                      | 43                       | 43           | 410                |
| 157                                                | 5/24/06         | 2 Window Units                       |   | 278      | S/L-MO        | 70         | 0                      | 23                       | 23           | 255                |
| 158                                                | 6/02/06         | Portable A/C                         |   | 540      | S/L-MO        | 70         | 0                      | 45                       | 45           | 495                |
| 197                                                | 6/17/06         | TV for Lodge                         |   | 2,888    | S/L-MO        | 70         | 0                      | 206                      | 206          | 2,682              |
| 198                                                | 7/07/06         | 4 Window Units for Staff Houses      |   | 1,181    | S/L-MO        | 70         | 0                      | 84                       | 84           | 1,097              |
| 159                                                | 7/14/06         | Portable A/C                         |   | 606      | S/L-MO        | 70         | 0                      | 43                       | 43           | 563                |
| 161                                                | 8/01/06         | Workstations Div 6                   |   | 5,468    | S/L-MO        | 70         | 0                      | 325                      | 325          | 301                |
| 162                                                | 7/31/06         | Couch for Lodge                      |   | 1,723    | S/L-MO        | 70         | 0                      | 103                      | 103          | 1,620              |

| Asset                                   | Date In Service | Property Description             | * | Tax Cost  | Tax-Meth Conv | Tax Period | Tax Prior Depreciation | Tax Current Depreciation | Tax End Depr | Tax Net Book Value |
|-----------------------------------------|-----------------|----------------------------------|---|-----------|---------------|------------|------------------------|--------------------------|--------------|--------------------|
| Group: Furniture & Fixtures (continued) |                 |                                  |   |           |               |            |                        |                          |              |                    |
| 163                                     | 8/23/06         | Artwork                          |   | 1,620     | S/L-MO        | 7.0        | 0                      | 77                       | 77           | 1,543              |
| 164                                     | 9/02/06         | 6 Dressers - Ikea                |   | 963       | S/L-MO        | 7.0        | 0                      | 46                       | 46           | 917                |
| 165                                     | 9/15/06         | Furniture                        |   | 2,000     | S/L-MO        | 7.0        | 0                      | 95                       | 95           | 1,905              |
| 166                                     | 10/10/06        | Hon Filing Cabinet - Treasury    |   | 539       | S/L-MO        | 7.0        | 0                      | 19                       | 19           | 520                |
| 167                                     | 10/27/06        | Assist Table                     |   | 552       | S/L-MO        | 7.0        | 0                      | 13                       | 13           | 539                |
| 168                                     | 11/10/06        | Furniture                        |   | 1,187     | S/L-MO        | 7.0        | 0                      | 28                       | 28           | 1,159              |
| 169                                     | 11/15/06        | Furniture                        |   | 1,366     | S/L-MO        | 7.0        | 0                      | 33                       | 33           | 1,333              |
| 170                                     | 11/15/06        | 4 Dressers, 3 Wardrobes          |   | 901       | S/L-MO        | 7.0        | 0                      | 21                       | 21           | 880                |
| 171                                     | 11/17/06        | Dressers                         |   | 642       | S/L-MO        | 7.0        | 0                      | 8                        | 8            | 634                |
| 172                                     | 11/30/06        | Couch for Apt                    |   | 969       | S/L-MO        | 7.0        | 0                      | 12                       | 12           | 957                |
| 173                                     | 12/04/06        | Couch                            |   | 926       | S/L-MO        | 7.0        | 0                      | 11                       | 11           | 915                |
| Furniture & Fixtures                    |                 |                                  |   | 210,212   |               |            | 65,348                 | 27,595                   | 92,943       | 117,269            |
| Group: Land                             |                 |                                  |   |           |               |            |                        |                          |              |                    |
| 28                                      | 12/31/01        | Land - Warner                    |   | 270,331   | --            | 0.0        | 0                      | 0                        | 0            | 270,331            |
| 30                                      | 10/15/04        | Land - Rainbow                   |   | 218,095   | --            | 0.0        | 0                      | 0                        | 0            | 218,095            |
| 38                                      | 8/31/05         | 230 Acres - Rainbow              |   | 3,104,170 | --            | 0.0        | 0                      | 0                        | 0            | 3,104,170          |
| 176                                     | 5/09/06         | Land - Warner Staff House        |   | 259,828   | --            | 0.0        | 0                      | 0                        | 0            | 259,828            |
| Land                                    |                 |                                  |   | 3,852,424 |               |            | 0                      | 0                        | 0            | 3,852,424          |
| Group: Land Improvements                |                 |                                  |   |           |               |            |                        |                          |              |                    |
| 3                                       | 12/31/03        | Land Improvements                |   | 92,309    | S/L-MO        | 15.0       | 15,385                 | 6,154                    | 21,539       | 70,770             |
| 99                                      | 11/04/05        | Well Repairs                     |   | 4,447     | S/L-MO        | 15.0       | 148                    | 296                      | 444          | 4,003              |
| 98                                      | 12/31/05        | Septic System                    |   | 6,265     | S/L-MO        | 15.0       | 209                    | 418                      | 627          | 5,638              |
| 175                                     | 6/16/06         | Fencing                          |   | 2,203     | S/L-MO        | 15.0       | 0                      | 73                       | 73           | 2,130              |
| 174                                     | 12/31/06        | Septic/Water System              |   | 36,492    | S/L-MO        | 15.0       | 0                      | 1,216                    | 1,216        | 35,276             |
| Land Improvements                       |                 |                                  |   | 141,716   |               |            | 15,742                 | 8,157                    | 23,899       | 117,817            |
| Group: LH Improvements - Newport        |                 |                                  |   |           |               |            |                        |                          |              |                    |
| 8                                       | 7/01/00         | Leasehold Improvements - Newport |   | 2,010     | S/L-MO        | 5.0        | 2,010                  | 0                        | 2,010        | 0                  |
| 23                                      | 12/31/03        | Leasehold Imp - Newport          |   | 8,365     | S/L-MO        | 5.0        | 4,182                  | 1,673                    | 5,855        | 2,510              |
| 100                                     | 6/30/05         | Sauna Overhaul                   |   | 3,018     | S/L-MO        | 5.0        | 302                    | 604                      | 906          | 2,112              |
| 101                                     | 9/30/05         | Remodeling                       |   | 28,023    | S/L-MO        | 5.0        | 2,802                  | 5,605                    | 8,407        | 19,616             |
| 177                                     | 3/19/06         | Tile                             |   | 10,673    | S/L-MO        | 3.5        | 0                      | 2,287                    | 2,287        | 8,386              |
| 178                                     | 5/25/06         | Blinds                           |   | 5,911     | S/L-MO        | 3.5        | 0                      | 985                      | 985          | 4,926              |
| 179                                     | 8/21/06         | Carpet                           |   | 8,126     | S/L-MO        | 3.5        | 0                      | 774                      | 774          | 7,352              |
| 180                                     | 10/06/06        | Painting                         |   | 7,700     | S/L-MO        | 3.5        | 0                      | 550                      | 550          | 7,150              |
| 181                                     | 12/28/06        | Sauna Floor                      |   | 2,000     | S/L-MO        | 3.5        | 0                      | 285                      | 285          | 1,715              |
| LH Improvements - Newport               |                 |                                  |   | 75,826    |               |            | 9,296                  | 12,763                   | 22,059       | 53,767             |
| Group: Motor Vehicles                   |                 |                                  |   |           |               |            |                        |                          |              |                    |

## Fixed Assets and Depreciation - Form 990

| Asset                                    | Date In Service | Property Description         | * | Tax Cost | Tax-Meth Conv | Tax Period | Tax Prior Depreciation | Tax Current Depreciation | Tax End Depr | Tax Net Book Value |
|------------------------------------------|-----------------|------------------------------|---|----------|---------------|------------|------------------------|--------------------------|--------------|--------------------|
| <b>Group: Motor Vehicles (continued)</b> |                 |                              |   |          |               |            |                        |                          |              |                    |
| 19                                       | 7/01/00         | Vehicles                     |   | 3,864    | S/L-MO        | 30         | 3,864                  | 0                        | 3,864        | 0                  |
| 106                                      | 7/28/01         | Car - LH                     |   | 8,000    | S/L-MO        | 30         | 8,000                  | 0                        | 8,000        | 0                  |
| 107                                      | 8/06/01         | Van                          |   | 11,100   | S/L-MO        | 30         | 11,100                 | 0                        | 11,100       | 0                  |
| 20                                       | 12/31/00        | Vehicles                     |   | 2,450    | S/L-MO        | 30         | 2,450                  | 0                        | 2,450        | 0                  |
| 102                                      | 12/31/02        | Chevy Pickup DH              |   | 1,700    | S/L-MO        | 30         | 1,700                  | 0                        | 1,700        | 0                  |
| 103                                      | 12/31/02        | Toyota Corolla MK            |   | 12,672   | S/L-MO        | 30         | 12,672                 | 0                        | 12,672       | 0                  |
| 104                                      | 12/31/02        | 1992 Acura SH                |   | 7,722    | S/L-MO        | 30         | 7,722                  | 0                        | 7,722        | 0                  |
| 105                                      | 12/31/02        | 2002 Saturn DW               |   | 14,294   | S/L-MO        | 30         | 14,294                 | 0                        | 14,294       | 0                  |
| 210                                      | 1/29/03         | Auto - Southern Collectibles |   | 7,500    | S/L-MO        | 30         | 7,500                  | 1,250                    | 7,500        | 0                  |
| 211                                      | 5/11/03         | 1999 Ford Tempo              |   | 11,034   | S/L-MO        | 30         | 9,195                  | 1,839                    | 11,034       | 0                  |
| 35                                       | 4/22/04         | 1998 Chevrolet Van           |   | 20,000   | S/L-MO        | 30         | 11,111                 | 6,667                    | 17,778       | 2,222              |
| 36                                       | 6/23/04         | 1992 Acura Vigor             |   | 8,000    | S/L-MO        | 30         | 4,000                  | 2,667                    | 6,667        | 1,333              |
| 212                                      | 10/27/05        | 2006 Econoline               |   | 33,985   | S/L-MO        | 30         | 5,664                  | 11,328                   | 16,992       | 16,993             |
| 213                                      | 10/27/05        | 2006 Econoline               |   | 33,985   | S/L-MO        | 30         | 5,664                  | 11,328                   | 16,992       | 16,993             |
| 214                                      | 10/27/05        | 2006 Econoline               |   | 33,823   | S/L-MO        | 30         | 5,638                  | 11,274                   | 16,912       | 16,911             |
| 182                                      | 1/13/06         | 2006 Ford Freestar           |   | 26,056   | S/L-MO        | 30         | 0                      | 8,685                    | 8,685        | 17,371             |
| 183                                      | 1/18/06         | 2006 Ford Econoline          |   | 34,696   | S/L-MO        | 30         | 0                      | 10,602                   | 10,602       | 24,094             |
| 184                                      | 8/11/06         | 2006 Ford Fusion             |   | 21,883   | S/L-MO        | 30         | 0                      | 3,039                    | 3,039        | 18,844             |
| 185                                      | 10/16/06        | 2006 Ford Econoline          |   | 35,824   | S/L-MO        | 30         | 0                      | 1,990                    | 1,990        | 33,834             |
| 186                                      | 10/16/06        | 2006 Ford Econoline          |   | 35,824   | S/L-MO        | 30         | 0                      | 1,990                    | 1,990        | 33,834             |
| 187                                      | 11/18/06        | 2007 Ford Fusion             |   | 19,843   | S/L-MO        | 30         | 0                      | 551                      | 551          | 19,292             |
|                                          |                 |                              |   | 384,255  |               |            | 109,324                | 73,210                   | 182,534      | 201,721            |
| <b>Motor Vehicles</b>                    |                 |                              |   |          |               |            |                        |                          |              |                    |

**Group: Plant & Technical Equip**

|     |          |                 |  |       |        |    |       |       |       |       |
|-----|----------|-----------------|--|-------|--------|----|-------|-------|-------|-------|
| 16  | 7/01/00  | Equipment       |  | 4,166 | S/L-MO | 70 | 3,273 | 595   | 3,868 | 298   |
| 17  | 12/31/01 | Equipment       |  | 5,731 | S/L-MO | 70 | 3,684 | 819   | 4,503 | 1,228 |
| 18  | 12/31/02 | Equipment       |  | 4,356 | S/L-MO | 70 | 2,178 | 622   | 2,800 | 1,556 |
| 26  | 12/31/03 | Equipment       |  | 9,167 | S/L-MO | 70 | 3,274 | 1,310 | 4,584 | 4,583 |
| 32  | 6/30/04  | Equipment       |  | 6,475 | S/L-MO | 70 | 1,388 | 925   | 2,313 | 4,162 |
| 109 | 3/14/05  | Washer/Dryer    |  | 300   | S/L-MO | 70 | 21    | 43    | 64    | 236   |
| 110 | 5/23/05  | BBQ Grill       |  | 1,076 | S/L-MO | 70 | 77    | 154   | 231   | 845   |
| 111 | 5/31/05  | New Oven        |  | 1,874 | S/L-MO | 70 | 134   | 268   | 402   | 1,472 |
| 112 | 6/06/05  | Bug Zappers     |  | 278   | S/L-MO | 70 | 20    | 40    | 60    | 218   |
| 113 | 6/10/05  | Tools           |  | 1,245 | S/L-MO | 70 | 89    | 178   | 267   | 978   |
| 114 | 6/13/05  | Dishwasher      |  | 398   | S/L-MO | 70 | 28    | 57    | 85    | 313   |
| 115 | 7/05/05  | Lawn Tractor    |  | 3,047 | S/L-MO | 70 | 218   | 435   | 653   | 2,394 |
| 116 | 7/06/05  | Gym Equipment   |  | 4,606 | S/L-MO | 70 | 329   | 658   | 987   | 3,619 |
| 117 | 7/06/05  | 2 Refrigerators |  | 1,094 | S/L-MO | 70 | 78    | 156   | 234   | 860   |
| 118 | 7/20/05  | Washers         |  | 2,990 | S/L-MO | 70 | 214   | 427   | 641   | 2,349 |
| 119 | 9/08/05  | Washer/Dryer    |  | 1,413 | S/L-MO | 70 | 101   | 202   | 303   | 1,110 |
| 120 | 9/30/05  | Washer          |  | 721   | S/L-MO | 70 | 51    | 103   | 154   | 567   |
| 121 | 10/03/05 | Refrigerator    |  | 396   | S/L-MO | 70 | 28    | 57    | 85    | 311   |
| 122 | 10/05/05 | Washer          |  | 425   | S/L-MO | 70 | 30    | 61    | 91    | 334   |
| 123 | 11/02/05 | Dryer           |  | 377   | S/L-MO | 70 | 27    | 54    | 81    | 296   |
| 188 | 1/17/06  | Washer & Dryer  |  | 1,471 | S/L-MO | 70 | 0     | 193   | 193   | 1,278 |
| 189 | 1/31/06  | Sauna Scale     |  | 454   | S/L-MO | 70 | 0     | 59    | 59    | 395   |
| 190 | 1/31/06  | Prep Table      |  | 2,127 | S/L-MO | 70 | 0     | 279   | 279   | 1,848 |



## Fixed Assets and Depreciation - Form 990

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| Asset                                                 | Date In Service | Property Description          | * | Tax Cost         | Tax-Meth Conv | Tax Period | Tax Prior Depreciation | Tax Current Depreciation | Tax End Depr   | Tax Net Book Value |
|-------------------------------------------------------|-----------------|-------------------------------|---|------------------|---------------|------------|------------------------|--------------------------|----------------|--------------------|
| <b>Group: Plant &amp; Technical Equip (continued)</b> |                 |                               |   |                  |               |            |                        |                          |                |                    |
| 191                                                   | 2/16/06         | Pressure Washer               |   | 464              | S/L-MO        | 7.0        | 0                      | 55                       | 55             | 409                |
| 108                                                   | 3/11/05         | Oven                          |   | 3,857            | S/L-MO        | 7.0        | 276                    | 551                      | 827            | 3,030              |
| 192                                                   | 3/23/06         | Stove                         |   | 7,844            | S/L-MO        | 7.0        | 0                      | 840                      | 840            | 7,004              |
| 193                                                   | 3/31/06         | Fitness Equipment             |   | 4,134            | S/L-MO        | 7.0        | 0                      | 443                      | 443            | 3,691              |
| 194                                                   | 4/14/06         | Golden Era Tpe Deck           |   | 762              | S/L-MO        | 7.0        | 0                      | 82                       | 82             | 680                |
| 195                                                   | 4/15/06         | Wsher & Dryer                 |   | 1,515            | S/L-MO        | 7.0        | 0                      | 162                      | 162            | 1,353              |
| 209                                                   | 4/17/06         | BBQ                           |   | 691              | S/L-MO        | 7.0        | 0                      | 66                       | 66             | 625                |
| 196                                                   | 5/16/06         | Water Heater                  |   | 1,115            | S/L-MO        | 7.0        | 0                      | 93                       | 93             | 1,022              |
| 199                                                   | 7/23/06         | Dryer                         |   | 320              | S/L-MO        | 7.0        | 0                      | 19                       | 19             | 301                |
| 200                                                   | 7/25/06         | Upright Freezer               |   | 836              | S/L-MO        | 7.0        | 0                      | 50                       | 50             | 786                |
| 201                                                   | 7/25/06         | Refrigerator                  |   | 751              | S/L-MO        | 7.0        | 0                      | 45                       | 45             | 706                |
| 202                                                   | 8/31/06         | Refrigerator Huntington Beach |   | 697              | S/L-MO        | 7.0        | 0                      | 33                       | 33             | 664                |
| 203                                                   | 10/04/06        | Washer and Dryer              |   | 579              | S/L-MO        | 7.0        | 0                      | 21                       | 21             | 558                |
| 204                                                   | 11/04/06        | Washer                        |   | 352              | S/L-MO        | 7.0        | 0                      | 8                        | 8              | 344                |
| 205                                                   | 11/13/06        | Dryer                         |   | 911              | S/L-MO        | 7.0        | 0                      | 22                       | 22             | 889                |
| 206                                                   | 11/29/06        | E-Meter                       |   | 2,000            | S/L-MO        | 7.0        | 0                      | 24                       | 24             | 1,976              |
| 207                                                   | 12/08/06        | Dryer for Blue House          |   | 475              | S/L-MO        | 7.0        | 0                      | 6                        | 6              | 469                |
| 208                                                   | 12/11/06        | Dryer                         |   | 655              | S/L-MO        | 7.0        | 0                      | 8                        | 8              | 647                |
| <b>Plant &amp; Technical Equip</b>                    |                 |                               |   | <u>82,145</u>    |               |            | <u>15,518</u>          | <u>10,223</u>            | <u>25,741</u>  | <u>56,404</u>      |
| <b>Grand Total</b>                                    |                 |                               |   | <u>8,049,194</u> |               |            | <u>389,933</u>         | <u>222,529</u>           | <u>612,462</u> | <u>7,436,732</u>   |



**NARCONON SOUTHERN CALIFORNIA**

**DECEMBER 31, 2006 and 2005**



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September 13, 2007

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Narconon Southern California  
Los Angeles, California

We have audited the accompanying statement of financial position of Narconon Southern California (a nonprofit organization) as of December 31, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2005 financial statements and, in our report dated August 31, 2006, we expressed an unqualified opinion of those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Narconon Southern California as of December 31, 2006 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

NSBN LLP  
NSBN LLP

NARCONON SOUTHERN CALIFORNIA  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2006 and 2005

|                                          | 2006                |                           |                     | 2005                |
|------------------------------------------|---------------------|---------------------------|---------------------|---------------------|
|                                          | Unrestricted        | Temporarily<br>Restricted | Total               | Total               |
| <b>ASSETS</b>                            |                     |                           |                     |                     |
| Cash and cash equivalents                | \$ 777,914          | \$ -                      | \$ 777,914          | \$ 977,272          |
| Accounts receivable                      | 142,046             | -                         | 142,046             | -                   |
| Deposits and other assets                | 129,578             | -                         | 129,578             | 106,200             |
| Property and equipment, net              | <u>7,923,396</u>    | <u>-</u>                  | <u>7,923,396</u>    | <u>6,933,435</u>    |
| <b>TOTAL ASSETS</b>                      | <u>\$ 8,972,934</u> | <u>\$ -</u>               | <u>\$ 8,972,934</u> | <u>\$ 8,016,907</u> |
| <b>LIABILITIES</b>                       |                     |                           |                     |                     |
| Accounts payable and accrued liabilities | \$ 441,238          | \$ -                      | \$ 441,238          | \$ 307,672          |
| Loans payable                            | 88,706              | -                         | 88,706              | 63,023              |
| Mortgages payable                        | <u>6,199,949</u>    | <u>-</u>                  | <u>6,199,949</u>    | <u>5,900,554</u>    |
| <b>TOTAL LIABILITIES</b>                 | 6,729,893           | -                         | 6,729,893           | 6,271,249           |
| <b>NET ASSETS</b>                        | <u>2,243,041</u>    | <u>-</u>                  | <u>2,243,041</u>    | <u>1,745,658</u>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <u>\$ 8,972,934</u> | <u>\$ -</u>               | <u>\$ 8,972,934</u> | <u>\$ 8,016,907</u> |

See accompanying auditors' report.  
The notes are an integral part of these financial statements.

NARCONON SOUTHERN CALIFORNIA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2006 and 2005

|                                               | 2006                |                           |                     | 2005                |
|-----------------------------------------------|---------------------|---------------------------|---------------------|---------------------|
|                                               | Unrestricted        | Temporarily<br>Restricted | Total               | Total               |
| <b>REVENUE AND SUPPORT</b>                    |                     |                           |                     |                     |
| Donations                                     | \$ 58,682           | \$ 269,705                | \$ 328,387          | \$ 139,647          |
| Narconon program material sales               | 225,059             | -                         | 225,059             | 204,939             |
| Program service revenue                       | 10,825,702          | -                         | 10,825,702          | 9,501,172           |
| Other revenue                                 | 7,437               | -                         | 7,437               | 2,861               |
| Net assets released from restriction          |                     |                           |                     |                     |
| Purposes accomplished                         | 269,705             | (269,705)                 | -                   | -                   |
| <b>TOTAL REVENUE AND SUPPORT</b>              | <b>11,386,585</b>   | <b>-</b>                  | <b>11,386,585</b>   | <b>9,848,619</b>    |
| <b>EXPENSES</b>                               |                     |                           |                     |                     |
| Program services                              |                     |                           |                     |                     |
| Drug rehabilitation services                  | 8,567,767           | -                         | 8,567,767           | 5,900,857           |
| Drug Education                                | 38,208              | -                         | 38,208              | -                   |
| Public awareness and information<br>campaigns | 717,675             | -                         | 717,675             | 1,393,471           |
| Supporting services                           |                     |                           |                     |                     |
| Management and General                        | 1,521,015           | -                         | 1,521,015           | 1,097,070           |
| Fundraising                                   | 44,537              | -                         | 44,537              | 18,114              |
| <b>TOTAL EXPENSES</b>                         | <b>10,889,202</b>   | <b>-</b>                  | <b>10,889,202</b>   | <b>8,409,512</b>    |
| <b>CHANGE IN NET ASSETS</b>                   | <b>497,383</b>      | <b>-</b>                  | <b>497,383</b>      | <b>1,439,107</b>    |
| <b>NET ASSETS, January 1</b>                  | <b>1,745,658</b>    | <b>-</b>                  | <b>1,745,658</b>    | <b>306,551</b>      |
| <b>NET ASSETS, December 31</b>                | <b>\$ 2,243,041</b> | <b>\$ -</b>               | <b>\$ 2,243,041</b> | <b>\$ 1,745,658</b> |

See accompanying auditors' report.  
The notes are an integral part of these financial statements

NARCONON SOUTHERN CALIFORNIA  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2006 and 2005

|                                                                                                | <u>2006</u>        | <u>2005</u>        |
|------------------------------------------------------------------------------------------------|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES                                                           |                    |                    |
| Change in net assets                                                                           | \$ 497,383         | \$ 1,439,107       |
| Adjustments to reconcile change in net assets<br>to net cash provided by operating activities: |                    |                    |
| Depreciation and amortization                                                                  | 225,740            | 172,880            |
| (Increase) decrease in assets:                                                                 |                    |                    |
| Accounts receivable                                                                            | (142,046)          | 14,247             |
| Deposits and other assets                                                                      | (26,590)           | (1,882)            |
| Increase (decrease) in liabilities:                                                            |                    |                    |
| Accounts payable and accrued liabilities                                                       | <u>133,566</u>     | <u>(341,182)</u>   |
| NET CASH PROVIDED BY OPERATING ACTIVITIES                                                      | <u>688,053</u>     | <u>1,283,170</u>   |
| CASH FLOWS FROM INVESTING ACTIVITIES                                                           |                    |                    |
| Acquisition of land                                                                            | (259,829)          | (3,104,171)        |
| Acquisition of building and improvements                                                       | (513,968)          | (93,354)           |
| Acquisition of equipment                                                                       | (255,151)          | (177,027)          |
| Construction in progress costs                                                                 | <u>(183,542)</u>   | <u>(280,744)</u>   |
| NET CASH (USED IN) INVESTING ACTIVITIES                                                        | <u>(1,212,490)</u> | <u>(3,655,296)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES                                                           |                    |                    |
| Proceeds from loans payable                                                                    | 146,108            | 83,142             |
| Repayments of loans payable                                                                    | (120,424)          | (20,119)           |
| Proceeds from refinanced mortgage payable                                                      | -                  | 774,000            |
| Repayments of mortgage payable                                                                 | -                  | (376,959)          |
| Proceeds from mortgage payable                                                                 | 477,750            | 3,105,000          |
| Principal payments on mortgages                                                                | (178,355)          | (123,239)          |
| Costs incurred for loan refinance                                                              | <u>-</u>           | <u>(14,807)</u>    |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                                                      | <u>325,079</u>     | <u>3,427,018</u>   |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                                                        | (199,358)          | 1,054,892          |
| CASH AND CASH EQUIVALENTS, January 1                                                           | <u>977,272</u>     | <u>(77,620)</u>    |
| CASH AND CASH EQUIVALENTS, December 31                                                         | <u>\$ 777,914</u>  | <u>\$ 977,272</u>  |
| SUPPLEMENTAL CASH FLOW DISCLOSURE                                                              |                    |                    |
| Interest paid                                                                                  | <u>\$ 501,485</u>  | <u>\$ 289,486</u>  |

See accompanying auditors' report  
The notes are an integral part of these financial statements

NARCONON SOUTHERN CALIFORNIA  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2006 and 2005

|                                                     | 2006                |                |                  |                        |                        | 2005             |                   |                  |                     |  |
|-----------------------------------------------------|---------------------|----------------|------------------|------------------------|------------------------|------------------|-------------------|------------------|---------------------|--|
|                                                     | Program Services    |                |                  | Supporting Services    |                        | Program Services |                   |                  | Supporting Services |  |
|                                                     | Drug Rehabilitation | Drug Education | Public Awareness | Total Program Services | Management and General | Fundraising      | Total Expenses    |                  | Total Expenses      |  |
| Salaries and employee benefits                      | \$ 2,739,239        | \$ 17,679      | \$ 253,627       | \$ 3,010,545           | \$ 650,259             | \$ 10,133        | \$ 3,670,937      | \$ 2,783,900     |                     |  |
| Payroll taxes                                       | 240,176             | 1,545          | 22,241           | 263,962                | 57,003                 | 901              | 321,866           | 256,923          |                     |  |
|                                                     | <u>2,979,415</u>    | <u>19,224</u>  | <u>275,868</u>   | <u>3,274,507</u>       | <u>707,262</u>         | <u>11,034</u>    | <u>3,992,803</u>  | <u>3,040,823</u> |                     |  |
| Contributions to other nonprofit organizations      | -                   | -              | 3,050            | 3,050                  | -                      | -                | 3,050             | 3,895            |                     |  |
| Cost of Narconon program materials sold             | 118,340             | -              | -                | 118,340                | -                      | -                | 118,340           | 104,033          |                     |  |
| Insurance                                           | 63,997              | 412            | 5,926            | 70,335                 | 15,189                 | 240              | 85,764            | 145,013          |                     |  |
| Interest                                            | 356,456             | 2,293          | 33,009           | 391,758                | 84,599                 | 1,338            | 477,695           | 289,486          |                     |  |
| Maintenance                                         | 107,752             | 694            | 9,978            | 118,424                | 25,574                 | 404              | 144,402           | 134,911          |                     |  |
| Narconon program license                            | 1,029,807           | 3,466          | -                | 1,033,273              | -                      | -                | 1,033,273         | 842,042          |                     |  |
| Office and administrative                           | 279,567             | 1,187          | 17,086           | 297,840                | 60,408                 | 692              | 358,940           | 319,680          |                     |  |
| Postage and shipping                                | 69,939              | 450            | 6,477            | 76,866                 | 16,599                 | 262              | 93,727            | 68,461           |                     |  |
| Printing and promotion                              | 32,645              | 210            | 218,390          | 251,245                | 7,749                  | 122              | 259,116           | 144,682          |                     |  |
| Professional fees                                   | 41,514              | -              | -                | 41,514                 | 224,597                | -                | 266,111           | 65,329           |                     |  |
| Program delivery costs                              | 1,643,976           | -              | -                | 1,643,976              | -                      | -                | 1,643,976         | 1,481,985        |                     |  |
| Referral fees                                       | 247,305             | -              | -                | 247,305                | -                      | 24,453           | 271,758           | 113,729          |                     |  |
| Rent                                                | 670,921             | 4,315          | 62,129           | 737,365                | 159,236                | 2,517            | 899,118           | 715,740          |                     |  |
| Staff training                                      | 143,936             | 926            | 13,329           | 158,191                | 34,161                 | 540              | 192,892           | 69,569           |                     |  |
| Taxes, dues and fees                                | 16,258              | 105            | 1,505            | 17,868                 | 3,855                  | 61               | 21,784            | 1,562            |                     |  |
| Telephone                                           | 188,921             | 1,215          | 17,495           | 207,631                | 44,838                 | 709              | 253,178           | 207,866          |                     |  |
| Travel                                              | 252,471             | 1,624          | 23,379           | 277,474                | 59,921                 | 947              | 338,342           | 318,664          |                     |  |
| Utilities                                           | 156,100             | 1,004          | 14,455           | 171,559                | 37,048                 | 586              | 209,193           | 169,162          |                     |  |
|                                                     | <u>8,399,320</u>    | <u>37,125</u>  | <u>702,076</u>   | <u>9,138,521</u>       | <u>1,481,036</u>       | <u>43,905</u>    | <u>10,663,462</u> | <u>8,236,632</u> |                     |  |
| Total expenses before depreciation and amortization |                     |                |                  |                        |                        |                  |                   |                  |                     |  |
| Amortization                                        | 2,396               | 15             | 222              | 2,633                  | 569                    | 9                | 3,211             | 16,556           |                     |  |
| Depreciation                                        | 166,051             | 1,068          | 15,377           | 182,496                | 39,410                 | 623              | 222,529           | 156,324          |                     |  |
|                                                     | <u>8,567,767</u>    | <u>38,208</u>  | <u>717,675</u>   | <u>9,323,650</u>       | <u>1,521,015</u>       | <u>44,537</u>    | <u>10,889,202</u> | <u>8,409,512</u> |                     |  |
| Total Expenses                                      |                     |                |                  |                        |                        |                  |                   |                  |                     |  |

See accompanying auditors' report  
The notes are an integral part of these financial statements

NARCONON SOUTHERN CALIFORNIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005

Note 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -

Description of Reporting Entity-

Narconon Southern California (NN South CA) is a tax-exempt nonprofit organization dedicated to rehabilitating people from the harmful effects of drugs and eliminating drug abuse and drug addiction by providing drug awareness campaigns and information, drug education and drug rehabilitation services. NN South CA is organized to operate exclusively for charitable purposes.

The Narconon drug and alcohol rehabilitation program offers a unique approach to rehabilitation through the use of methodologies researched and developed by author and humanitarian, L. Ron Hubbard. This includes safe, drug-free withdrawal, detoxification to cleanse the body of residues of drugs and other chemicals and a carefully designed program of courses that enables students to develop essential life skills. Graduates of the Narconon drug rehabilitation program are able to break out of the trap of addiction and rejoin society as stable, ethical, contributing citizens.

NN South CA also conducts public awareness and education campaigns through the different mediums of the Internet, radio, television, and print media. The information provided informs listeners and readers about the mechanics of drug and alcohol addiction and the harmful effects of drug use. Narconon drug education and prevention programs take a comprehensive approach to preventing drug use through effective educational programs with school children, parents and educators.

Tax Exempt Status-

NN South CA is recognized by the Internal Revenue Service as exempt from Federal income tax under Section 501(c)(3). NN South CA is also recognized by the California Franchise Tax Board as exempt from California Corporation Franchise Tax under Section 23772(a)(2)(A)(i) of the California Revenue and Taxation Code and exempt from income tax under Section 2370(1)(d). NN South CA qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Basis of Accounting-

The financial statements of NN South CA have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to nonprofit organizations.

Certain 2005 amounts are reclassified to conform to the 2006 presentation.

Basis of Presentation-

The financial statements of NN South CA have been presented in accordance with the AICPA's Audit and Accounting Guide, "Not-For-Profit Organizations." The accounting policies followed are described below.



NARCONON SOUTHERN CALIFORNIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005

Note 1    NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -  
                  (Continued)

Net Asset Classes-

The accompanying financial statements present information regarding NN South CA's financial position and activities according to three classes of net assets unrestricted, temporarily restricted and permanently restricted. The three classes are differentiated by donor restrictions:

a- Unrestricted

Net assets that are not subject to donor-imposed restrictions, or donor-restricted contributions whose restrictions are met within the same reporting period

b- Temporarily Restricted

Net assets that are subject to donor-imposed time or use restrictions that have not been met as of year-end. Temporarily restricted net assets are restricted for time (e.g., multi-year pledges) or specific programs. There were no temporarily restricted net assets at December 31, 2006 and 2005

c- Permanently Restricted

Net assets subject to donor-imposed restrictions that are maintained permanently. There were no permanently restricted net assets at December 31, 2006 and 2005.

Summarized Comparative Financial Information-

The financial statements include certain prior-year summarized comparative information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2005 from which the summarized information was derived

Use of Estimates in the Preparation of Financial Statements-

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates

Cash and Cash Equivalents-

Cash and cash equivalents include all funds in banks and highly liquid investments in other financial institutions, with initial maturity of three months or less. The carrying value approximates fair value.

NARCONON SOUTHERN CALIFORNIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005

Note 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -  
(Continued)

Property and equipment-

Property and equipment are carried at cost. Depreciation is computed using primarily the straight-line method, with the following estimated useful lives:

|                                     | <u>YEARS</u> |
|-------------------------------------|--------------|
| Buildings and building improvements | 15-40        |
| Land improvements                   | 15           |
| Furniture and equipment             | 3-7          |
| Leasehold improvements              | 3-5          |
| Vehicles                            | 3            |

Expenditures for maintenance, repairs, and renewals of minor items are charged to expense as incurred. Major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in operations for the period.

Accounts Receivable

Accounts receivable represents amounts owed to NN South CA by students on the Narconon drug rehabilitation program and on program material sales and is stated at fair value. Management believes no provision for allowance is necessary at December 31, 2006.

Note 2 PROPERTY AND EQUIPMENT

|                                     | <u>2006</u>         | <u>2005</u>         |
|-------------------------------------|---------------------|---------------------|
| Land                                | \$ 3,852,425        | \$ 3,592,596        |
| Buildings and building improvements | 3,226,280           | 2,785,418           |
| Land improvements                   | 141,716             | 103,021             |
| Furniture and equipment             | 368,697             | 287,673             |
| Leasehold improvements              | 75,827              | 41,416              |
| Vehicles                            | <u>384,255</u>      | <u>210,128</u>      |
|                                     | 8,049,200           | 7,020,252           |
| Less: accumulated depreciation      | <u>(612,462)</u>    | <u>(389,933)</u>    |
|                                     | 7,436,738           | 6,630,319           |
| Construction in progress            | <u>486,658</u>      | <u>303,116</u>      |
|                                     | <u>\$ 7,923,396</u> | <u>\$ 6,933,435</u> |

Land and buildings with original combined purchase prices of approximately \$7,220,000 are pledged as collateral for the mortgages payable (Note 3).

Vehicles with original combined purchase prices of approximately \$175,000 are pledged as collateral for the loans payable (Note 4).

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Note 3 MORTGAGES PAYABLE

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <u>2006</u>         | <u>2005</u>         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Mortgage payable due on or before August 22, 2010 secured by a first deed of trust; the agreement provides for the first sixteen monthly payments to be interest only. The initial six interest only payments will be paid at 5.00%. The subsequent ten interest only payments will be paid at 7.00%. Principal and interest at 8.00%, made in monthly installments of \$22,000 for the next twelve months based on a twenty-year amortization. Principal and interest at 9.00%, in monthly installments of \$25,000 to be made thereafter, until fully paid. Prepayment penalties apply. | \$ 3,105,000        | \$ 3,105,000        |
| Mortgage payable due on or before October 10, 2024, secured by a first and second deed of trust, with monthly payments of \$18,894 or more, including interest at 9.00% per annum. There is no prepayment penalty.                                                                                                                                                                                                                                                                                                                                                                        | 2,010,106           | 2,053,770           |
| Mortgage payable due on or before October 10, 2010, secured by a first deed of trust, with monthly payments of \$15,509 or more, at initial rate of 1% over prime at 7.50% per annum. Interest rate is scheduled to increase no more frequently than every quarter, not to exceed 15.5% per annum. Prepayment penalties apply.                                                                                                                                                                                                                                                            | 609,911             | 741,784             |
| Mortgage payable due on or before May 10, 2016, secured by a first deed of trust, with monthly payments of \$3,589, including interest at 8.25% per annum, and a final balloon payment for all the principal and accrued interest not yet paid. Prepayment penalties apply.                                                                                                                                                                                                                                                                                                               | <u>474,932</u>      | <u>-</u>            |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <u>\$ 6,199,949</u> | <u>\$ 5,900,554</u> |

Five year maturities are as follows:

|            |                     |
|------------|---------------------|
| 2007       | \$ 197,521          |
| 2008       | 234,701             |
| 2009       | 257,105             |
| 2010       | 3,262,686           |
| 2011       | 73,899              |
| Thereafter | <u>2,174,037</u>    |
|            | <u>\$ 6,199,949</u> |

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Note 4 LOANS PAYABLE

|                                                                                                                                                                                                            | <u>2006</u> | <u>2005</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Loan payable to finance company due on November 11, 2008, secured by a vehicle, with monthly payments of \$874, including interest at 8.49% per annum. Prepayments are subject to penalty finance charges. | \$ -        | \$ 20,899   |
| Loan payable to finance company due on November 11, 2008, secured by a vehicle, with monthly payments of \$880, including interest at 8.49% per annum. Prepayments are subject to penalty finance charges  | -           | 21,062      |
| Loan payable to finance company due on November 11, 2008, secured by a vehicle, with monthly payments of \$880, including interest at 8.49% per annum. Prepayments are subject to penalty finance charges. | -           | 21,062      |
| Loan payable to finance company due on January 27, 2009, secured by a vehicle, with monthly payments of \$744, including interest at 8.99% per annum. Prepayments are subject to penalty finance charges.  | 703         | -           |
| Loan payable to finance company due on February 4, 2009, secured by a vehicle, with monthly payments of \$791, Prepayments are subject to penalty finance charges                                          | 9,380       | -           |
| Loan payable to finance company due on August 25, 2009, secured by a vehicle, with monthly payments of \$516, Prepayments are subject to penalty finance charges.                                          | 10,579      | -           |
| Loan payable to finance company due on October 30, 2009, secured by a vehicle, with monthly payments of \$823, Prepayments are subject to penalty finance charges                                          | 25,967      | -           |
| Loan payable to finance company due on October 30, 2009, secured by a vehicle, with monthly payments of \$823, Prepayments are subject to penalty finance charges.                                         | 25,967      | -           |

NARCONON SOUTHERN CALIFORNIA  
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Note 4 LOANS PAYABLE (Continued)

|                                                                                                                                                                                                           | <u>2006</u>      | <u>2005</u>      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Loan payable to finance company due on December 2, 2009, secured by a vehicle, with monthly payments of \$481, including interest at 2 90% per annum. Prepayments are subject to penalty finance charges. | 16,110           | -                |
|                                                                                                                                                                                                           | <u>\$ 88,706</u> | <u>\$ 63,023</u> |

Five year maturities are as follows:

|      |                  |
|------|------------------|
| 2007 | \$ 20,917        |
| 2008 | 39,249           |
| 2009 | 28,540           |
| 2010 | -                |
| 2011 | -                |
|      | <u>\$ 88,706</u> |

Note 5 OPERATING LEASES

NN South CA has noncancellable operating leases on its premises expiring through 2011. Total rent expense under these operating leases were approximately \$ 459,500 and \$401,000 for 2006 and 2005, respectively.

Future minimum payments under these operating leases for each of the next five years and in the aggregate are:

|      |                   |
|------|-------------------|
| 2007 | \$ 251,247        |
| 2008 | 202,767           |
| 2009 | 202,767           |
| 2010 | 156,059           |
| 2011 | 132,706           |
|      | <u>\$ 945,546</u> |

Note 6 NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrences of other events specified by donors.

Net Assets Released from Temporary Restrictions:

|                                              |                   |
|----------------------------------------------|-------------------|
| New drug rehabilitation facility renovations | \$ 269,705        |
| Total                                        | <u>\$ 269,705</u> |

NARCONON SOUTHERN CALIFORNIA  
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**Note 7    RELATED PARTY TRANSACTIONS**

NN South CA is licensed by and related to Narconon International, a tax-exempt nonprofit corporation.

NN South CA is affiliated with all Narconon centers, all U S centers are tax-exempt nonprofit corporations, all non - U S. centers are nonprofit corporations. NN South CA is related to Association For Better Living & Education International (ABLE), which is a tax-exempt nonprofit corporation.

All license fees paid were to related parties.

Substantially all payments made for purchases of materials for resale are to ABLE

**Note 8    CONCENTRATION OF CREDIT RISK**

Cash and cash equivalents include approximately \$926,700 and \$1,062,000 in 2006 and 2005, respectively, in excess of insured limits. It is the opinion of NN South CA management that the solvency of the relevant financial institutions is not of particular concern.

**Note 9    FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing NN South CA's programs and the supporting services have been summarized on a functional basis in the statement of activities, and in the statement of functional expenses. Accordingly, certain costs have been allocated between program and supporting services in reasonable ratios determined by management.