

**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

**2005**Open to Public  
Inspection**A For the 2005 calendar year, or tax year beginning**

, and ending

**B** Check if applicable☐ Address change☐ Name change☐ Initial return☐ Final return☐ Amended return☐ Application pendingPlease  
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. OCEAN FRONT**

Room/suite

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

**NEWPORT BEACH CA 92663-4520****D** Employer identification no.**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 I are not applicable to section 527 organizations

**H(a)** Is this a group return for affiliates? ☐ Yes ☒ No**H(b)** If "Yes," enter number of affiliates ▶**H(c)** Are all affiliates included? **N/A** ☐ Yes ☐ No

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

**H(d)** Is this a separate return filed by anorganization 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's gross receipts are normally not more than \$25,000. The organization need not file a return with the IRS, but if the organization chooses to file a return, be sure to file a complete return. Some states require a complete return.**L** Gross receipts Add lines 6b, 8b, 9b, and 10b to line 12 ▶ **9,848,619****Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See the instructions.)**

<b>1</b>	Contributions, gifts, grants, and similar amounts received.				
<b>a</b>	Direct public support	<b>1a</b>	<b>83,155</b>		
<b>b</b>	Indirect public support	<b>1b</b>	<b>56,492</b>		
<b>c</b>	Government contributions (grants)	<b>1c</b>			
<b>d</b>	Total (add lines 1a through 1c) (cash \$ <b>139,647</b> noncash \$ )	<b>1d</b>	<b>139,647</b>		
<b>2</b>	Program service revenue including government fees and contracts (from Part VII, line 93)	<b>2</b>	<b>9,439,180</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>2,861</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>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>9</b>	Special events and activities (attach schedule) If any amount is from gaming, check here <input type="checkbox"/>	<b>8d</b>			
<b>a</b>	Gross revenue (not including \$ of contributions reported on line 1a)	<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>204,939</b>		
<b>b</b>	Less cost of goods sold	<b>10b</b>	<b>104,033</b>		
<b>c</b>	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a) <b>STMT 1</b>	<b>10c</b>	<b>100,906</b>		
<b>11</b>	Other revenue (from Part VII, line 103)	<b>11</b>	<b>61,992</b>		
<b>12</b>	Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)	<b>12</b>	<b>9,744,586</b>		
<b>13</b>	Program services (from line 44, column (B))	<b>13</b>	<b>6,348,253</b>		
<b>14</b>	Management and general (from line 44, column (C))	<b>14</b>	<b>1,097,070</b>		
<b>15</b>	Fundraising (from line 44, column (D))	<b>15</b>	<b>18,114</b>		
<b>16</b>	Payments to affiliates (attach schedule)	<b>16</b>	<b>842,042</b>		
<b>17</b>	Total expenses (add lines 16 and 44, column (A))	<b>17</b>	<b>8,305,479</b>		
<b>18</b>	Excess or (deficit) for the year (subtract line 17 from line 12)	<b>18</b>	<b>1,439,107</b>		
<b>19</b>	Net assets or fund balances at beginning of year (from line 73, column (A))	<b>19</b>	<b>807,932</b>		
<b>20</b>	Other changes in net assets or fund balances (attach explanation)	<b>20</b>	<b>-501,381</b>		
<b>21</b>	Net assets or fund balances at end of year (combine lines 18, 19, and 20)	<b>21</b>	<b>1,745,658</b>		

G15-14

23

**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
22	Grants and allocations (attach schedule) <b>STMT 4</b> (cash \$ <u>3,895</u> non-cash \$ <u>          </u> ) If this amount includes foreign grants, check here <input type="checkbox"/>	22	3,895	3,895	
23	Specific assistance to individuals (attach schedule) <input type="checkbox"/>	23			
24	Benefits paid to or for members (attach schedule)	24			
25	Compensation of officers, directors, etc	25	489,502	288,708	189,190
26	Other salaries and wages	26	2,221,341	1,810,647	410,694
27	Pension plan contributions	27			
28	Other employee benefits	28	73,057	56,970	15,787
29	Payroll taxes	29	256,923	200,349	55,521
30	Professional fundraising fees	30			
31	Accounting fees	31	19,516	11,312	8,145
32	Legal fees	32	45,461	35,450	9,825
33	Supplies	33	220,837	172,208	47,724
34	Telephone	34	207,866	162,094	44,920
35	Postage and shipping	35	68,461	53,386	14,794
36	Occupancy	36	711,786	640,608	71,178
37	Equipment rental and maintenance	37	3,954	3,083	855
38	Printing and publications	38	20,032	15,621	4,329
39	Travel	39			
40	Conferences, conventions, and meetings	40			
41	Interest	41	289,486	225,741	62,558
42	Depreciation, depletion, etc (attach schedule)	42	156,324	121,902	33,781
43	Other expenses not covered above (itemize)				
a	<b>SEE STATEMENT 5</b>	43a	2,674,996	2,546,279	127,769
b		43b			
c		43c			
d		43d			
e		43e			
f		43f			
g		43g			
44	<b>Total functional expenses.</b> Add lines 22 through 43. (Organizations completing columns (B)-(D), carry these totals to lines 13-15)	44	7,463,437	6,348,253	1,097,070
					18,114

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) & (4) orgs., & 4947(a)(1) trusts, but optional for others.)

**a** **SEE STATEMENT 6**

(Grants and allocations \$ **3,895** )

If this amount includes foreign grants, check here ☐

**4,954,782**

**b** **SEE STATEMENT 7**

(Grants and allocations \$ )

If this amount includes foreign grants, check here ☐

**1,393,471**

**c**

(Grants and allocations \$ )

If this amount includes foreign grants, check here ☐

**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)

**6,348,253**

Form **990** (2005)

**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) Beginning of year	(B) End of year
<b>Assets</b>	45 Cash-non-interest-bearing	45	282,312
	46 Savings and temporary cash investments	46	694,960
	47a Accounts receivable	47a	
	b Less allowance for doubtful accounts	47b	47c
	48a Pledges receivable	48a	
	b Less allowance for doubtful accounts	48b	48c
	49 Grants receivable	49	
	50 Receivables from officers, directors, trustees, and key employees (attach schedule)	50	
	51a Other notes and loans receivable (attach schedule)	51a	
	b Less allowance for doubtful accounts	51b	51c
	52 Inventories for sale or use	52	
	53 Prepaid expenses and deferred charges	8,452	53 73,869
	54 Investments-securities <input type="checkbox"/> Cost <input type="checkbox"/> FMV	54	
	55a Investments-land, buildings, and equipment basis	55a	
	b Less accumulated depreciation (attach schedule)	55b	55c
56 Investments-other (attach schedule)	56		
57a Land, buildings, and equipment basis	57a 7,040,060		
b Less accumulated depreciation (attach schedule)	57b 391,110	57c 6,648,950	
58 Other assets (describe ► <b>SEE STATEMENT 8</b> )	58 50,318	316,816	
59 <b>Total assets</b> (must equal line 74) Add lines 45 through 58	3,491,241	59 8,016,907	
<b>Liabilities</b>	60 Accounts payable and accrued expenses	60 161,557	219,172
	61 Grants payable	61	
	62 Deferred revenue	62	88,500
	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>	64b 2,521,752	5,900,554
	65 Other liabilities (describe ► <b>SEE STATEMENT 9</b> )	65	63,023
66 <b>Total liabilities.</b> Add lines 60 through 65	2,683,309	66 6,271,249	
<b>Net Assets or Fund Balances</b>	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 67 through 69 and lines 73 and 74		
	67 Unrestricted	67 807,932	1,745,658
	68 Temporarily restricted	68	
	69 Permanently restricted	69	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 70 through 74		
	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, column (B) must equal line 21)	807,932	73 1,745,658
	74 <b>Total liabilities and net assets/fund balances.</b> Add lines 66 and 73	3,491,241	74 8,016,907

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

<b>a</b>	Total revenue, gains, and other support per audited financial statements	<b>a</b>	9,848,619
<b>b</b>	Amounts included on line a but not on Part I, line 12:		
<b>1</b>	Net unrealized gains on investments	<b>b1</b>	
<b>2</b>	Donated services and use of facilities	<b>b2</b>	
<b>3</b>	Recoveries of prior year grants	<b>b3</b>	
<b>4</b>	Other (specify)	<b>b4</b>	SEE STMT 10 104,033
	Add lines b1 through b4	<b>b</b>	104,033
<b>c</b>	Subtract line b from line a	<b>c</b>	9,744,586
<b>d</b>	Amounts included on Part I, line 12, but not on line a:		
<b>1</b>	Investment expenses not included on Part I, line 6b	<b>d1</b>	
<b>2</b>	Other (specify)	<b>d2</b>	
	Add lines d1 and d2	<b>d</b>	
<b>e</b>	Total revenue (Part I, line 12) Add lines c and d	<b>e</b>	9,744,586

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

<b>a</b>	Total expenses and losses per audited financial statements	<b>a</b>	8,409,512
<b>b</b>	Amounts included on line a but not Part I, line 17:		
<b>1</b>	Donated services and use of facilities	<b>b1</b>	
<b>2</b>	Prior year adjustments reported on Part I, line 20	<b>b2</b>	
<b>3</b>	Losses reported on Part I, line 20	<b>b3</b>	
<b>4</b>	Other (specify)	<b>b4</b>	SEE STMT 11 104,033
	Add lines b1 through b4	<b>b</b>	104,033
<b>c</b>	Subtract line b from line a	<b>c</b>	8,305,479
<b>d</b>	Amounts included on Part I, line 17, but not on line a:		
<b>1</b>	Investment expenses not included on Part I, line 6b	<b>d1</b>	
<b>2</b>	Other (specify)	<b>d2</b>	
	Add lines d1 and d2	<b>d</b>	
<b>e</b>	Total expenses (Part I, line 17) Add lines c and d	<b>e</b>	8,305,479

**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) Contrib to employee benefit plans & deferred compensation plans	(E) Expense account and other allowances
LAWRENCE TRAHANT 1810 W. OCEAN FR NEWPORT BE CA 92663	CEO/ED/DIR 40	87,063	1,706	12,000
JULIE BRYANT 1810 W. OCEAN FR NEWPORT BE CA 92663	SECRETARY 40	116,039	3,441	0
DAVID WORTHINGTON 1810 W. OCEAN FR NEWPORT BE CA 92663	CFO/TREAS 40	100,700	0	0
NICHOLAS KENT 1810 W. OCEAN FR NEWPORT BE CA 92663	VP/DEP ED 40	103,750	1,706	0
MICHAEL KOBRIN 1810 W. OCEAN FR NEWPORT BE CA 92663	VP/DEP ED 40	81,950	0	0
PATRICIA SCHWARTZ 1810 W. OCEAN FR NEWPORT BE CA 92663	DIRECTOR 1	0	0	0
JULIE BERK 1810 W. OCEAN FR NEWPORT BE CA 92663	DIRECTOR 1	0	0	0
KAREN SEAGAL 1810 W. OCEAN FR NEWPORT BE CA 92663	TRUSTEE 1	0	0	0
CLARK CARR 1810 W. OCEAN FR NEWPORT BE CA 92663	TRUSTEE 1	0	0	0
MICHAEL ST. ARMAND 1810 W. OCEAN FR NEWPORT BE CA 92663	TRUSTEE 1	0	0	0

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

Yes No

**75a** Enter the total number of officers, directors, and trustees permitted to vote on organization business at board meetings **3**

**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)

75b X

**c** 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 this organization through common supervision or common control?

75c X

**Note.** Related organizations include section 509(a)(3) supporting organizations

If "Yes," attach a statement that identifies the individuals, explains the relationship between this organization and the other organization(s), and describes the compensation arrangements, including amounts paid to each individual by each related organization

**SEE STATEMENT 12**

**d** Does the organization have a written conflict of interest policy?

75d X

**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.)

(A) Name and address	(B) Loans and Advances	(C) Compensation	(D) Contrib to employee benefit plans & deferred compensation plans	(E) Expense account and other allowances
N/A				

**Part VI Other Information (See the instructions.)**

Yes No

**76** Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity

76 X

**77** Were any changes made in the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes.

77 X

**78a** Did the organization have unrelated business gross income of \$1,000 or more during the year covered by this return?

N/A

78a X

**b** If "Yes," has it filed a tax return on Form 990-T for this year?

78b

**79** Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement

79 X

**80a** 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?

80a X

**b** If "Yes," enter the name of the organization

**NARCONON WESTERN UNITED STATES**and check whether it is ☒ exempt or ☐ nonexempt

**81a** Enter direct and indirect political expenditures (See line 81 instructions)

81a

**b** Did the organization file Form 1120-POL for this year?

81b X

**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?	N/A	82a	
<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. (See instructions in Part III)	N/A	82b	
<b>83a</b> Did the organization comply with the public inspection requirements for returns and exemption applications?		83a	X
<b>b</b> Did the organization comply with the disclosure requirements relating to quid pro quo contributions?		83b	X
<b>84a</b> Did the organization solicit any contributions or gifts that were not tax deductible?	N/A	84a	
<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	84b	
<b>85</b> 501(c)(4), (5), or (6) organizations. <b>a</b> Were substantially all dues nondeductible by members?	N/A	85a	
<b>b</b> Did the organization make only in-house lobbying expenditures of \$2,000 or less? 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	85b	
<b>c</b> Dues, assessments, and similar amounts from members	N/A	85c	
<b>d</b> Section 162(e) lobbying and political expenditures	N/A	85d	
<b>e</b> Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices	N/A	85e	
<b>f</b> Taxable amount of lobbying and political expenditures (line 85d less 85e)	N/A	85f	
<b>g</b> Does the organization elect to pay the section 6033(e) tax on the amount on line 85f?	N/A	85g	
<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	85h	
<b>86</b> 501(c)(7) orgs. Enter. <b>a</b> Initiation fees and capital contributions included on line 12	N/A	86a	
<b>b</b> Gross receipts, included on line 12, for public use of club facilities	N/A	86b	
<b>87</b> 501(c)(12) orgs. Enter. <b>a</b> Gross income from members or shareholders	N/A	87a	
<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	87b	
<b>88</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		88	X
<b>89a</b> 501(c)(3) organizations. Enter. Amount of tax imposed on the organization during the year under section 4911 <span style="margin-left: 20px;">0</span> , section 4912 <span style="margin-left: 20px;">0</span> ; section 4955 <span style="margin-left: 20px;">0</span>			
<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		89b	X
<b>c</b> Enter. Amount of tax imposed on the organization managers or disqualified persons during the year sections 4912, 4955, and 4958 <span style="float: right;">▶ 0</span>			0
<b>d</b> Enter. Amount of tax on line 89c, above, reimbursed by the organization <span style="float: right;">▶ 0</span>			0
<b>90a</b> List the states with which a copy of this return is filed <span style="margin-left: 20px;">CA</span>			
<b>b</b> Number of employees employed in the pay period that includes March 12, 2005 (See instructions)		90b	87
<b>91a</b> The books are in care of <span style="margin-left: 20px;">JESSICA LOWE</span> <span style="margin-left: 40px;">7060 HOLLYWOOD BLV., SUITE 306</span> Located at <span style="margin-left: 20px;">LOS ANGELES, CA</span>		Telephone no <span style="margin-left: 20px;">323-871-8644</span> ZIP + 4 <span style="margin-left: 20px;">90028</span>	
<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)? If "Yes," enter the name of the foreign country <span style="margin-left: 20px;">▶</span> See the instructions for exceptions and filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts		91b	X
At any time during the calendar year, did the organization maintain an office outside of the United States?		91c	X
<b>c</b> If "Yes," enter the name of the foreign country <span style="margin-left: 20px;">▶</span>			
<b>92</b> 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	N/A	92	▶ <input type="checkbox"/>

**Part VII Analysis of Income-Producing Activities** (See the instructions.)

Note: Enter gross amounts unless otherwise indicated.

		Unrelated business income		Excluded by sec 512, 513, or 514		(E) Related or exempt function income
		(A) Business code	(B) Amount	(C) Exclusion code	(D) Amount	
93	Program service revenue					
a	<b>PROGRAM SERVICE REVENUE</b>					<b>9,439,180</b>
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			<b>14</b>	<b>2,861</b>	
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					<b>100,906</b>
103	Other revenue. a					
b	<b>REFERRAL COMMISSIONS</b>			<b>1</b>	<b>61,992</b>	
c						
d						
e						
104	Subtotal (add columns (B), (D), and (E))		<b>0</b>		<b>64,853</b>	<b>9,540,086</b>
105	Total (add line 104, columns (B), (D), and (E))					<b>9,604,939</b>

Note: Line 105 plus line 1d, 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.	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	<b>RECEIPTS FOR DELIVERY OF DRUG REHAB &amp; PREVENTION SERVICES</b>
102	<b>INCOME FROM SALES OF MATERIALS USED IN ANTI-DRUG PROGRAMS</b>
103B	<b>RECEIPTS FOR REFERRAL OF STUDENTS TO OTHER ORGANIZATIONS</b>

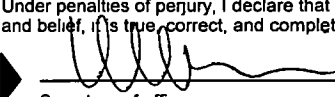
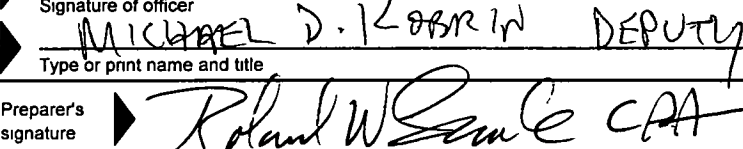
**Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities** (See the instructions.)

(A) Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) 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).

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 <b>11/15/2006</b>	
Paid Preparer's Use Only	 Type or print name and title		Date <b>11/15/06</b>	
	Preparer's signature		Check if self-employed <input checked="" type="checkbox"/>	
	Firm's name (or yours if self-employed), address, and ZIP + 4 <b>ROLAND W. FINK, CPA</b> <b>2441 HONOLULU AVE., SUITE 126</b> <b>MONTROSE, CA 91020-1847</b>		Preparer's SSN or PTIN (See Gen. Instr. W) EIN <b>818-249-4577</b> Phone no	



**SCHEDULE A**  
**(Form 990 or 990-EZ)**

Department of the Treasury  
Internal Revenue Service

**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

**2005**

**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 1 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
ROBERT MARKHAM 1810 W OCEAN FRON NEWPORT BEACH CA 92663	REGISTRAR 40	83,041	1,706	3,984
JEANNE ADAMS 1810 W OCEAN FRONT NEWPORT BEACH CA 92663	FACILITY DIR 40	75,175	1,706	9,350
KELLY STEWART 1810 W OCEAN FRONT NEWPORT BEACH CA 92663	OPER EXEC 40	64,410	1,524	3,528
TONYA LAWSON 1810 W OCEAN FRONT NEWPORT BEACH CA 92663	REGISTRAR 40	63,329	1,369	0
DANIEL MORGAN 1810 W OCEAN FRONT NEWPORT BEACH CA 92663	INTERNET 40	58,631	2,045	0
Total number of other employees paid over \$50,000		5		

**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 1412 E. CHAPMAN AVE ORANGE CA 92866	TRANSITIONAL CARE	358,992
COLLEGE HOSPITAL 301 VICTORIA STREET COSTA MESA CA 92627	MEDICAL	132,940
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) 2005

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

	Yes	No
<b>1</b> 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) 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.	<b>1</b>	<b>X</b>
<b>2</b> 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.)		
<b>a</b> Sale, exchange, or leasing of property?	<b>2a</b>	<b>X</b>
<b>b</b> Lending of money or other extension of credit?	<b>2b</b>	<b>X</b>
<b>c</b> Furnishing of goods, services, or facilities?	<b>2c</b>	<b>X</b>
<b>d</b> Payment of compensation (or payment or reimbursement of expenses if more than \$1,000)? <b>SEE PART V, FORM 990</b>	<b>2d</b>	<b>X</b>
<b>e</b> Transfer of any part of its income or assets?	<b>2e</b>	<b>X</b>
<b>3a</b> Do you make grants for scholarships, fellowships, student loans, etc.? (If "Yes," attach an explanation of how you determine that recipients qualify to receive payments.)	<b>3a</b>	<b>X</b>
<b>b</b> Do you have a section 403(b) annuity plan for your employees?	<b>3b</b>	<b>X</b>
<b>c</b> During the year, did the organization receive a contribution of qualified real property interest under section 170(h)?	<b>3c</b>	<b>X</b>
<b>4a</b> Did you maintain any separate account for participating donors where donors have the right to provide advice on the use or distribution of funds?	<b>4a</b>	<b>X</b>
<b>b</b> Do you provide credit counseling, debt management, credit repair, or debt negotiation services?	<b>4b</b>	<b>X</b>

**Part IV Reason for Non-Private Foundation Status** (See pages 3 through 6 of the instructions.)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)(ii). (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 supports organizations described in (1) lines 5 through 12 above; or (2) section 501(c)(4), (5), or (6), if they meet the test of section 509(a)(2). Check the box that describes the type of supporting organization ► ☐ Type 1 ☐ Type 2 ☐ Type 3

Provide the following information about the supported organizations. (See page 6 of the instructions.)

(a) Name(s) of supported organization(s)	(b) Line number from above

- 14** ☐ An organization organized and operated to test for public safety. Section 509(a)(4). (See page 6 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) 2004	(b) 2003	(c) 2002	(d) 2001	(e) Total
<b>15</b> Gifts, grants, and contributions received (Do not include unusual grants. See line 28 )	9,325	23,860	15,514	17,324	66,023
<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	6,428,990	5,008,014	3,647,468	2,304,942	17,389,414
<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	90	97	210	3,533	3,930
<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	6,438,405	5,031,971	3,663,192	2,325,799	17,459,367
<b>24</b> Line 23 minus line 17	9,415	23,957	15,724	20,857	69,953
<b>25</b> Enter 1% of line 23	64,384	50,320	36,632	23,258	
<b>26 Organizations described on lines 10 or 11:</b> a Enter 2% of amount in column (e), line 24 ▶					26a 1,399
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 2001 through 2004 exceeded the amount shown in line 26a. Do not file this list with your return. Enter the total of all these excess amounts ▶					26b 14,863
c Total support for section 509(a)(1) test. Enter line 24, column (e) ▶					26c 69,953
d Add: Amounts from column (e) for lines 18 3,930 19 26b 14,863					26d 18,793
e Public support (line 26c minus line 26d total) ▶					26e 51,160
f Public support percentage (line 26e (numerator) divided by line 26c (denominator)) ▶					26f 73.1348 %
<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 (2004) (2003) (2002) (2001) <b>N/A</b>					
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 (2004) (2003) (2002) (2001) <b>N/A</b>					
c Add: Amounts from column (e) for lines 15 16 17 20 21					27c
d Add: Line 27a total and line 27b total					27d
e Public support (line 27c total minus line 27d total)					27e
f Total support for section 509(a)(2) test. Enter amount from line 23, column (e) ▶					27f
g Public support percentage (line 27e (numerator) divided by line 27f (denominator)) ▶					27g %
h Investment income percentage (line 18, column (e) (numerator) divided by line 27f (denominator)) ▶					27h %
<b>28 Unusual Grants:</b> For an organization described in line 10, 11, or 12 that received any unusual grants during 2001 through 2004, 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 7 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? 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? 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 9 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> (The term "expenditures" means amounts paid or incurred )		(a) Affiliated group totals	(b) To be completed for ALL electing organizations
36	Total lobbying expenditures to influence public opinion (grassroots lobbying)	36	
37	Total lobbying expenditures to influence a legislative body (direct lobbying)	37	
38	Total lobbying expenditures (add lines 36 and 37)	38	
39	Other exempt purpose expenditures	39	
40	Total exempt purpose expenditures (add lines 38 and 39)	40	
41	Lobbying nontaxable amount Enter the amount from the following table-		
If the amount on line 40 is-		The lobbying nontaxable amount is-	
Not over \$500,000		20% of the amount on line 40	
Over \$500,000 but not over \$1,000,000		\$100,000 plus 15% of the excess over \$500,000	
Over \$1,000,000 but not over \$1,500,000		\$175,000 plus 10% of the excess over \$1,000,000	
Over \$1,500,000 but not over \$17,000,000		\$225,000 plus 5% of the excess over \$1,500,000	
Over \$17,000,000		\$1,000,000	
42	Grassroots nontaxable amount (enter 25% of line 41)	42	
43	Subtract line 42 from line 36 Enter -0- if line 42 is more than line 36	43	
44	Subtract line 41 from line 38 Enter -0- if line 41 is more than line 38	44	

**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 11 of the instructions )

	<b>Lobbying Expenditures During 4-Year Averaging Period</b>				
Calendar year (or fiscal year beginning in) ▶	(a) 2005	(b) 2004	(c) 2003	(d) 2002	(e) Total
45	Lobbying nontaxable amount				
46	Lobbying ceiling amount (150% of line 45(e))				
47	Total lobbying expenditures				
48	Grassroots nontaxable amount				
49	Grassroots ceiling amount (150% of line 48(e))				
50	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 11 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 through c 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 through c h.)

Yes	No	Amount
	X	
	X	
	X	0
	X	0
	X	0
	X	0
	X	0
	X	0

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



For calendar year 2005, 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) HOME BANK OF CALIFORNIA	
(2) GUARANTY RESIDENTIAL LENDING	
(3) 325 EAST FOURTH STREET LLC	
(4) HOME BANK OF CALIFORNIA	
(5) 325 EAST FOURTH STREET LLC	
(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)	331,048	
(2)	100,208	
(3)	2,090,496	2,053,770
(4)		741,784
(5)		3,105,000
(6)		
(7)		
(8)		
(9)		
(10)		
Totals	2,521,752	5,900,554

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

OMB No 1545-0172

**2005**

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>105,000</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>420,000</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 instr	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 2004 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 2006 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 certain aircraft, certain property with a long production period, and qualified NYL or GO 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>156,324</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 2005	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 2005 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 2005 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>156,324</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** (2005) (Rev. 1-2006)



**Part V Listed Property** (Include automobiles, certain other vehicles, cellular telephones, certain computers, and property used for entertainment, recreation, or amusement.)

**Note:** For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable

**Section A-Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles )**

<b>24a</b> Do you have evidence to support the business/investment use claimed?				<b>Yes</b>	<b>No</b>	<b>24b</b> If "Yes," is the evidence written?				<b>Yes</b>	<b>No</b>
(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/ investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/ Convention	(h) Depreciation deduction	(i) Elected section 179 cost			
<b>25</b> Special allowance for certain aircraft, certain property with a long production period, and qualified NYL or GO Zone property placed in service during the tax year and used more than 50% in a qualified business use (see instructions)								<b>25</b>			
<b>26</b> Property used more than 50% in a qualified business use											
		%									
		%									
<b>27</b> Property used 50% or less in a qualified business use											
		%				S/L-					
		%				S/L-					
<b>28</b> Add amounts in column (h), lines 25 through 27 Enter here and on line 21, page 1								<b>28</b>			
<b>29</b> Add amounts in column (i), line 26 Enter here and on line 7, page 1										<b>29</b>	

**Section B-Information on Use of Vehicles**

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person

If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles

<b>30</b> Total business/investment miles driven during the year (do not include commuting miles)	(a) Vehicle 1	(b) Vehicle 2	(c) Vehicle 3	(d) Vehicle 4	(e) Vehicle 5	(f) Vehicle 6
<b>31</b> Total commuting miles driven during the year						
<b>32</b> Total other personal (noncommuting) miles driven						
<b>33</b> Total miles driven during the year Add lines 30 through 32						
<b>34</b> Was the vehicle available for personal use during off-duty hours?	Yes	No	Yes	No	Yes	No
<b>35</b> Was the vehicle used primarily by a more than 5% owner or related person?						
<b>36</b> Is another vehicle available for personal use?						

**Section C-Questions for Employers Who Provide Vehicles for Use by Their Employees**

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who are not more than 5% owners or related persons (see instructions)

<b>37</b> Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?	<b>Yes</b>	<b>No</b>
<b>38</b> Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners		
<b>39</b> Do you treat all use of vehicles by employees as personal use?		
<b>40</b> Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?		
<b>41</b> Do you meet the requirements concerning qualified automobile demonstration use? (See instructions ) <b>Note:</b> If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles		

**Part VI Amortization**

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
<b>42</b> Amortization of costs that begins during your 2005 tax year (see instructions):					
<b>LOAN COSTS</b>	<b>9/13/05</b>	<b>14,807</b>	<b>0</b>	<b>5.0</b>	<b>864</b>
<b>43</b> Amortization of costs that began before your 2005 tax year					<b>43</b>
					<b>15,692</b>
<b>44</b> Total. Add amounts in column (f) See the instructions for where to report					<b>44</b>
					<b>16,556</b>

## Federal Statements

## Form 990, Part I, Line 8c - Sale of Assets Other Than Inventory - Other

Desc		How Rec'd	Whom Sold	Date Acquired	Date Sold	Sale Price	Cost & Expense	Deprec	Gain/ -Loss
LOAN COSTS		PURCHASE		3/01/02	12/31/05	\$	8,008	\$ 8,008	\$
LOAN COSTS		PURCHASE		8/19/03	12/31/05		11,428	11,428	
TOTAL						\$ 0	\$ 19,436	\$ 19,436	\$ 0

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

<u>Description</u>	<u>Gross Sales</u>	<u>COGS</u>	<u>Gross Profit</u>
BOOKSTORE SALES	\$ <u>204,939</u>	\$ <u>104,033</u>	\$ <u>100,906</u>
TOTAL	\$ <u>204,939</u>	\$ <u>104,033</u>	\$ <u>100,906</u>

Federal Statements

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

Bus Name	Addr	Purpose	Amount
NARCONON INTERNATIONAL	7060 HOLLYWOOD BLVD.	TRADEMARK LIC. FEE	\$ 842,042
SUITE 220			
LOS ANGELES, CA 90028			
TOTAL			<u>\$ 842,042</u>

**Statement 3 - Form 990, Line 20 - Other Changes in Net Assets or Fund Balances**

<u>Description</u>	<u>Amount</u>
CONVERSION TO ACCRUAL BASIS	\$ <u>-501,381</u>
TOTAL	\$ <u><u>-501,381</u></u>

## Federal Statements

Statement 4 - Form 990, Part II, Line 22 - Grants, Allocations and Contributions

Name Address	Date of Gift	Description of Property	Relationship to Org	Class of Activity		Cash Contrib	NonCash Contrib	Book Value	BV Explantn	FMV Explantn
WARNER SPRINGS RESOURCE CNETER				COMMUNITY RELATIONS		\$	1,000	\$		
30951 HIGHWAY 79										
WARNER SPRINGS, CA, 92086										
WARNER FOOTBALL ASB				COMMUNITY RELATIONS				645		
30951 HIGHWAY 79										
WARNER SPRINGS, CA, 92086										
NATIONAL POLICE RODEO ASSOCIATION				COMMUNITY RELATIONS				750		
PO BOX 755										
GARDEN GROVE, CA, 92842										
CALIENTE HERITAGE MUSEUM				COMMUNITY RELATIONS				500		
1000 DEPOT AVENUE										
CALIENTE, NV, 89008										
ORANGE COUNTY FIREFIGHTERS ASSN				COMMUNITY RELATIONS				500		
1900 E WARNER AVE, SUITE G										
SANTA ANA, CA, 92705										
CHILDREN'S TUMOR FUND				COMMUNITY RELATIONS				500		
8939 S SEPULVEDA BLVD., SUITE 516										

**Federal Statements****Statement 4 - Form 990, Part II, Line 22 - Grants, Allocations and Contributions**  
**(continued)**

Name Address	Date of Gift	Description of Property	Relationship to Org	Class of Activity	Cash Contrib	NonCash Contrib	Book Value	BV Explanth	FMV Explanth
LOS ANGELES, CA, 90045					\$ 3,895	\$ 0	\$ 0		
TOTAL					\$ 3,895	\$ 0	\$ 0		

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

Description	Total Expenses	Program Service	Mgt & General	Fund- Raising
	\$	\$	\$	\$
EXPENSES				
REFERRAL COMMISSIONS	113,729	113,729		
INSURANCE	145,013	113,082	31,336	595
TAXES	1,562	1,406	156	
UTILITIES	169,162	152,246	16,916	
REPAIRS & MAINTENANCE	134,911	121,420	13,491	
DISSEMINATION	124,650	124,650		
TRAVEL AND TRANSPORTATION	318,664	286,798	31,866	
BANK & CREDIT CARD FEES	98,843	83,451	15,392	
OUTSIDE SERVICES	352	352		
STAFF ENHANCEMENT	69,569	54,250	15,034	285
FOOD	785,952	785,952		
CLIENT MEDICAL	579,845	579,845		
VITAMINS	43,682	43,682		
OTHER PROGRAM COSTS	72,506	72,506		
AMORTIZATION	16,556	12,910	3,578	68
TOTAL	<u>\$ 2,674,996</u>	<u>\$ 2,546,279</u>	<u>\$ 127,769</u>	<u>\$ 948</u>



**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 200 PERSONS COMPLETED THE PROGRAM, ENABLING THEM TO LEAD MORE ETHICAL AND DRUG-FREE LIVES.

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

ANOTHER OF THE ORGANIZATION'S PURPOSES IS TO CONDUCT BROAD PUBLIC CAMPAIGNS TO RAISE PUBLIC AWARENESS OF THE EXTENT AND EFFECTS OF SUBSTANCE ABUSE AND THE NEED FOR PREVENTION AND REHABILITATION. DURING THE YEAR OVER 300,000 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 4,000,000 VISITS DURING THE YEAR.

**Federal Statements**

FYE: 12/31/2005

**Statement 8 - Form 990, Part IV, Line 58 - Other Assets**

<u>Description</u>	<u>Beginning of Year</u>	<u>End of Year</u>
SECURITY DEPOSIT	\$ 13,700	\$ 13,700
CONSTRUCTION IN PROGRESS	22,372	303,116
DUE FROM NARCONON WEST US	14,246	
TOTAL	<u>\$ 50,318</u>	<u>\$ 316,816</u>

**Statement 9 - Form 990, Part IV, Line 65 - Other Liabilities**

<u>Description</u>	<u>Beginning of Year</u>	<u>End of Year</u>
INSTALLMENT CONTRACTS PAYABLE	\$	\$ 63,023
TOTAL	<u>\$ 0</u>	<u>\$ 63,023</u>

**Statement 10 - Form 990, Part IV-A - Other Revenue Included on Financial Statements**

<u>Description</u>	<u>Amount</u>
COST OF PROGRAM MATERIALS SOLD	\$ <u>104,033</u>
TOTAL	\$ <u><u>104,033</u></u>

**Statement 11 - Form 990, Part IV-B - Other Expenses Included on Financial Statements**

<u>Description</u>	<u>Amount</u>
COST OF PROGRAM MATERIALS SOLD	\$ <u>104,033</u>
TOTAL	\$ <u><u>104,033</u></u>

## Federal Statements

11/15/2006 3:39 PM

Page 11

33-0911677

FYE: 12/31/2005

Statement 12 - Form 990, Part V-A, Line 75c - Compensation from Related Organizations

Payee Name	Organization EIN	Relationship	Related Organization Name1	Related Organization Name2	Compensation	Benefits	Expenses	Compensation Description
DAVID WORTHINGTON	65-1238009	EMPLOYEE	NARCONON WESTERN UNITED STATES		6,750			SALARY
NICHOLAS KENT	65-1238009	EMPLOYEE	NARCONON WESTERN UNITED STATES		19,119			SALARY
MICHAEL KOBRIN	65-1238009	EMPLOYEE	NARCONON WESTERN UNITED STATES		15,170			SALARY
JEANNE ADAMS	65-1238009	EMPLOYEE	NARCONON WESTERN UNITED STATES		2,081			SALARY
KAREN SEGAL	95-4188814	EMPLOYEE	ABLE INTERNATIONAL		3,673			SALARY
CLARKE CARR	95-2769582	EMPLOYEE	NARCONON INTERNATIONAL		56,481			SALARY

## Federal Asset Report

FYE: 12/31/2005

## Form 990, Page 1

Asset	Description	Date In Service	Cost	Bus %	Sec 179B	Bonus	Basis for Depr	PerConv Meth	Prior	Current
<b>Other Depreciation:</b>										
3	Land Improvements	12/31/03	92,309				92,309	15 MO S/L	9,231	6,154
4	Building - Warner	12/31/01	642,266				642,266	40 MO S/L	52,185	16,056
5	Bldg Additions - Warner	12/31/02	75,018				75,018	40 MO S/L	4,688	1,876
6	Housing Structure	1/01/02	77,921				77,921	40 MO S/L	5,844	1,948
7	Bldg Additions - Warner	12/31/03	47,014				47,014	40 MO S/L	1,763	1,176
8	Leasehold Improvements - Newport	7/01/00	2,010				2,010	5 MO S/L	1,809	201
9	Computer & Office Equip.	7/01/00	6,652				6,652	5 MO S/L	5,986	666
10	Comuter & Office Equip	12/31/00	1,414				1,414	5 MO S/L	1,273	141
11	Computer & Office Equip.	12/31/01	7,652				7,652	5 MO S/L	5,684	1,531
12	Computer & Office Equip	12/31/02	1,750				1,750	5 MO S/L	875	350
13	Furniture & Fixtures	7/01/00	27,251				27,251	7 MO S/L	17,518	3,893
14	Furniture	12/31/01	18,238				18,238	7 MO S/L	10,421	2,606
15	Furniture	12/31/02	16,508				16,508	7 MO S/L	5,895	2,359
16	Equipment	7/01/00	4,166				4,166	7 MO S/L	2,678	595
17	Equipment	12/31/01	5,731				5,731	7 MO S/L	2,866	818
18	Equipment	12/31/02	4,356				4,356	7 MO S/L	1,555	623
19	Vehicles	7/01/00	3,864				3,864	3 MO S/L	3,864	0
20	Vehicles	12/31/01	2,450				2,450	3 MO S/L	2,450	0
21	Vehicles	12/31/01	19,100				19,100	3 MO S/L	19,100	0
22	Vehicles	12/31/02	36,388				36,388	3 MO S/L	30,731	5,657
23	Leasehold Imp. - Newport	12/31/03	8,365				8,365	5 MO S/L	2,509	1,673
24	Computer & Office Equip	12/31/03	18,851				18,851	5 MO S/L	5,655	3,770
25	Furniture & Fixtures	12/31/03	24,077				24,077	7 MO S/L	5,160	3,439
26	Equipment	12/31/03	9,167				9,167	7 MO S/L	1,965	1,309
27	Vehicles	12/31/03	18,534				18,534	3 MO S/L	9,267	6,178
28	Land - Warner	12/31/02	270,331				270,331	0 -- Land	0	0
30	Land - Rainbow	10/15/04	218,095				218,095	0 -- Land	0	0
31	Buildings - Rainbow	10/15/04	1,884,763				1,884,763	40 MO S/L	11,779	47,119
32	Equipment	6/30/04	6,475				6,475	7 MO S/L	463	925
33	Furniture & fixtures	6/30/04	50,403				50,403	7 MO S/L	3,600	7,201
34	Computer & Office Equipment	6/30/04	9,748				9,748	5 MO S/L	975	1,949
35	1998 Chevrolet Van	4/22/04	20,000				20,000	3 MO S/L	4,444	6,667
36	1992 Acura Vigor	6/23/04	8,000				8,000	3 MO S/L	1,333	2,667
38	230 Acres - Rainbow	8/31/05	3,104,170				3,104,170	0 -- Land	0	0
39	land Improvements	7/01/05	10,712				10,712	15 MO S/L	0	357
40	Building Imp - Rainbow	7/01/05	8,680				8,680	40 MO S/L	0	109
41	Building Imp - Warner	7/01/05	42,921				42,921	40 MO S/L	0	537
42	LH Imp - Newport	7/01/05	31,041				31,041	5 MO S/L	0	3,104
43	Equipment	7/01/05	24,097				24,097	7 MO S/L	0	1,721
44	Furniture & fixtures	7/01/05	45,578				45,578	7 MO S/L	0	3,256
45	Computer & Office Equip	7/01/05	5,560				5,560	5 MO S/L	0	556
46	3 Ford Vans	7/01/05	101,793				101,793	3 MO S/L	0	16,966
48	Building Additions - Rainbow	10/15/04	6,834				6,834	40 MO S/L	43	171
<b>Total Other Depreciation</b>			<b>7,020,253</b>				<b>7,020,253</b>		<b>233,609</b>	<b>156,324</b>
<b>Total ACRS and Other Depreciation</b>			<b>7,020,253</b>				<b>7,020,253</b>		<b>233,609</b>	<b>156,324</b>
<b>Amortization:</b>										
47	Loan Costs	9/13/05	14,807				14,807	5 MOAmort	0	864
2	Loan Costs	3/01/02	8,008				8,008	30 MOAmort	756	7,252
Sold/Scrapped: 12/31/05										
29	Loan Costs	8/19/03	11,428				11,428	5 MOAmort	3,238	8,190
Sold/Scrapped: 12/31/05										
37	loan costs - Rainbow	10/15/04	5,000				5,000	20 MOAmort	63	250
			<b>39,243</b>				<b>39,243</b>		<b>4,057</b>	<b>16,556</b>
<b>Grand Totals</b>			<b>7,059,496</b>				<b>7,059,496</b>		<b>237,666</b>	<b>172,880</b>
<b>Less: Dispositions</b>			<b>19,436</b>				<b>19,436</b>		<b>3,994</b>	<b>15,442</b>
<b>Net Grand Totals</b>			<b>7,040,060</b>				<b>7,040,060</b>		<b>233,672</b>	<b>157,438</b>

**Application for Change in Accounting Method**

OMB No 1545-0152

Name of filer (name of parent corporation if a consolidated group) (see instructions)		Identification number (see instructions) 33-0911677	
Narconon Southern California		Principal business activity code number (see instructions) N/A	
Number, street, and room or suite no. If a P O box, see the instructions 1810 W. Ocean Front		Tax year of change begins (MM/DD/YYYY) 01/01/2005 Tax year of change ends (MM/DD/YYYY) 12/31/2005	
City or town, state, and ZIP code Newport Beach, CA 92663-4520		Name of contact person (see instructions) Michael Kobrin	
Name of applicant(s) (if different than filer) and identification number(s) (see instructions)		Contact person's telephone number (323) 871-8644	

If the applicant is a member of a consolidated group, check this box ☐If Form 2848, Power of Attorney and Declaration of Representative, is attached, check this box ☐**Check the box to indicate the applicant.**

- ☐ Individual  
☐ Corporation  
☐ Controlled foreign corporation (Sec. 957)  
☐ 10/50 corporation (Sec. 904(d)(2)(E))  
☐ Qualified personal service corporation (Sec. 448(d)(2))  
☒ Exempt organization Enter Code section ▶ 501(c)(3)
- ☐ Cooperative (Sec. 1381)  
☐ Partnership  
☐ S corporation  
☐ Insurance co. (Sec. 816(a))  
☐ Insurance co. (Sec. 831)  
☐ Other (specify) ▶ .....

**Check the appropriate box to indicate the type of accounting method change being requested. (see instructions)**

- ☐ Depreciation or Amortization  
☐ Financial Products and/or Financial Activities of Financial Institutions  
☒ Other (specify) ▶ Cash to accrual .....

**Caution:** The applicant must provide the requested information to be eligible for approval of the requested accounting method change. The applicant may be required to provide information specific to the accounting method change such as an attached statement. The applicant must provide all information relevant to the requested accounting method change, even if not specifically requested by the Form 3115.

**Part I Information For Automatic Change Request**

	Yes	No
1 Enter the requested designated accounting method change number from the List of Automatic Accounting Method Changes (see instructions). Enter only one method change number, except as provided for in the instructions. If the requested change is not included in that list, check Other, and provide a description. (a) Change No. <u>30</u> (b) Other <input type="checkbox"/> Description ▶ .....		
2 Is the accounting method change being requested one for which the scope limitations of section 4.02 of Rev. Proc. 2002-9 (or its successor) do not apply? .....	X	
3 Is the tax year of change the final tax year of a trade or business for which the taxpayer would be required to take the entire amount of the section 481(a) adjustment into account in computing taxable income? .....		
If "Yes", the applicant is not eligible to make the change under automatic change request procedures		
<b>Note:</b> Complete Part II below and then Part IV, and also Schedules A through E of this form (if applicable).		

**Part II Information For All Requests**

	Yes	No
4a Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any Federal income tax return(s) under examination (see instructions)? If you answered No, go to line 5.		X
b Is the method of accounting the applicant is requesting to change an issue (with respect to either the applicant or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) either (i) under consideration or (ii) placed in suspense (see instructions)? .....		

**Signature (see instructions)**

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

Filer

Preparer (other than filer/applicant)

Michael D. Kobrin 11/15/2006  
Signature and date

Michael D. Kobrin DEPUTY ED  
Name and title (print or type)

Roland W. Fink CPA  
Signature of individual preparing the application and date

Roland W. Fink  
Name of individual preparing the application (print or type)

Roland W. Fink, CPA  
Name of firm preparing the application

**Part II** Information For All Requests (continued)

	Yes	No
4c Is the method of accounting the applicant is requesting to change an issue pending (with respect to either the applicant or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) for any tax year under examination (see instructions)?		
d Is the request to change the method of accounting being filed under the procedures requiring that the operating division director consent to the filing of the request (see instructions)? If "Yes," attach the consent statement from the director.		
e Is the request to change the method of accounting being filed under the 90-day or 120-day window period? If "Yes," check the box for the applicable window period and attach the required statement (see instructions). <input type="checkbox"/> 90 day <input type="checkbox"/> 120 day		
f If you answered "Yes" to line 4a, enter the name and telephone number of the examining agent and the tax year(s) under examination. Name <input type="text"/> Telephone number <input type="text"/> Tax year(s) <input type="text"/>		
g Has a copy of this Form 3115 been provided to the examining agent identified on line 4f?		
5a Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any Federal income tax return(s) before Appeals and/or a Federal court? If "Yes," enter the name of the (check the box) <input type="checkbox"/> Appeals officer and/or <input type="checkbox"/> counsel for the government, and the tax year(s) before Appeals and/or a Federal court. Name <input type="text"/> Telephone number <input type="text"/> Tax year(s) <input type="text"/>		X
b Has a copy of this Form 3115 been provided to the Appeals officer and/or counsel for the government identified on line 5a?		X
c Is the method of accounting the applicant is requesting to change an issue under consideration by Appeals and/or a Federal court (for either the applicant or any present or former consolidated group in which the applicant was a member for the tax year(s) the applicant was a member)? If "Yes," attach an explanation.		X
6 If the applicant answered "Yes" to line 4a and/or 5a with respect to any present or former consolidated group, provide each parent corporation's (a) name, (b) identification number, (c) address, and (d) tax year(s) during which the applicant was a member that is under examination, before an Appeals office, and/or before a Federal court		
7 If the applicant is an entity (including a limited liability company) treated as a partnership or S corporation for Federal income tax purposes, is it requesting a change from a method of accounting that is an issue under consideration in an examination, before Appeals, or before a Federal court, with respect to a Federal income tax return of a partner, member, or shareholder of that entity? If "Yes," the applicant is not eligible to make the change.		X
8 Is the applicant making a change to which audit protection does not apply (see instructions)?		X
9a Has the applicant, its predecessor, or a related party requested or made (under either an automatic change procedure or a procedure requiring advance consent) a change in accounting method within the past 5 years (including the year of the requested change)?		X
b If "Yes," attach a description of each change and the year of change for each separate trade or business and whether consent was obtained.		
c If any application was withdrawn, not perfected, or denied, or if a Consent Agreement was sent to the taxpayer but was not signed and returned to the IRS, or if the change was not made or not made in the requested year of change, include an explanation		
10a Does the applicant, its predecessor, or a related party currently have pending any request (including any concurrently filed request) for a private letter ruling, change in accounting method, or technical advice?		X
b If "Yes," for each request attach a statement providing the name(s) of the taxpayer, identification number(s), the type of request (private letter ruling, change in accounting method, or technical advice), and the specific issue(s) in the request(s).		
11 Is the applicant requesting to change its overall method of accounting? If "Yes," check the appropriate boxes below to indicate the applicant's present and proposed methods of accounting. Also, complete Schedule A on page 4 of the form. Present method: <input checked="" type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Hybrid (attach description) Proposed method: <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Hybrid (attach description)	X	
12 If the applicant is not changing its overall method of accounting, attach a detailed and complete description for each of the following: a The item(s) being changed. b The applicant's present method for the item(s) being changed. c The applicant's proposed method for the item(s) being changed. d The applicant's present overall method of accounting (cash, accrual, or hybrid).		

**Part II Information For All Requests (continued)**

	Yes	No
13 Attach a detailed and complete description of the applicant's trade(s) or business(es), and the principal business activity code for each. If the applicant has more than one trade or business as defined in Regulations section 1.446-1(d), describe: whether each trade or business is accounted for separately, the goods and services provided by each trade or business and any other types of activities engaged in that generate gross income; the overall method of accounting for each trade or business; and which trade or business is requesting to change its accounting method as part of this application or a separate application.		
14 Will the proposed method of accounting be used for the applicant's books and records and financial statements? For insurance companies, see the instructions . . . . . If "No," attach an explanation.	X	
15a Has the applicant engaged, or will it engage, in a transaction to which section 381(a) applies (e.g., a reorganization, merger, or liquidation) during the proposed tax year of change determined without regard to any potential closing of the year under section 381(b)(1)? . . . . .		X
b If "Yes," for the items of income and expense that are the subject of this application, attach a statement identifying the methods of accounting used by the parties to the section 381(a) transaction immediately before the date of distribution or transfer and the method(s) that would be required by section 381(c)(4) or (c)(5) absent consent to the change(s) requested in this application.		
16 Does the applicant request a conference of right with the IRS National Office if the IRS proposes an adverse response? . . . . .	X	
17 If the applicant is changing to or from the cash method or changing its method of accounting under sections 263A, 448, 460, or 471, enter the gross receipts of the 3 tax years preceding the year of change.		
1st preceding year ended mo 12 yr 04 2nd preceding year ended mo 12 yr 03 3rd preceding year ended mo 12 yr 02		
\$ 6,429,810.00 \$ 5,031,971.00 \$ 3,663,192.00		

**Part III Information For Advance Consent Request**

	Yes	No
18 Is the applicant's requested change described in any revenue procedure, revenue ruling, notice, regulation, or other published guidance as an automatic change request? . . . . . If "Yes," attach an explanation describing why the applicant is submitting its request under advance consent request procedures.		
19 Attach a full explanation of the legal basis supporting the proposed method for the item being changed. Include a detailed and complete description of the facts that explains how the law specifically applies to the applicant's situation and that demonstrates that the applicant is authorized to use the proposed method. Include all authority (statutes, regulations, published rulings, court cases, etc.) supporting the proposed method. The applicant should include a discussion of any authorities that may be contrary to its use of the proposed method.		
20 Attach a copy of all documents related to the proposed change (see instructions).		
21 Attach a statement of the applicant's reasons for the proposed change.		
22 If the applicant is a member of a consolidated group for the year of change, do all other members of the consolidated group use the proposed method of accounting for the item being changed? . . . . . If "No," attach an explanation.		
23a Enter the amount of user fee attached to this application (see instructions) ▶ \$ _____		
b If the applicant qualifies for a reduced user fee, attach the necessary information or certification required by Rev Proc. 2003-1 (or its successor) (see instructions).		

**Part IV Section 481(a) Adjustment**

	Yes	No
24 Do the procedures for the accounting method change being requested require the use of the cut-off method? If "Yes," do not complete lines 25, 26, and 27 below.		X
25 Enter the section 481(a) adjustment. Indicate whether the adjustment is an increase (+) or a decrease (-) in income. ▶ \$ -501,381.00 Attach a summary of the computation and an explanation of the methodology used to determine the section 481(a) adjustment. If it is based on more than one component, show the computation for each component. If more than one applicant is applying for the method change on the same application, attach a list of the name, identification number, principal business activity code (see instructions), and the amount of the section 481(a) adjustment attributable to each applicant.		
26 If the section 481(a) adjustment is an increase to income of less than \$25,000, does the applicant elect to take the entire amount of the adjustment into account in the year of change? . . . . .		
27 Is any part of the section 481(a) adjustment attributable to transactions between members of an affiliated group, a consolidated group, a controlled group, or other related parties? . . . . . If "Yes," attach an explanation.		X



**Schedule A - Change in Overall Method of Accounting** (If Schedule A applies, Part I below must be completed.)**Part I** **Change in Overall Method** (see instructions)

- 1** Enter the following amounts as of the close of the tax year preceding the year of change. If none, state "None." Also, attach a statement providing a breakdown of the amounts entered on lines 1a through 1g.

- a** Income accrued but not received  
**b** Income received or reported before it was earned. Attach a description of the income and the legal basis for the proposed method  
**c** Expenses accrued but not paid  
**d** Prepaid expenses previously deducted  
**e** Supplies on hand previously deducted and/or not previously reported  
**f** Inventory on hand previously deducted and/or not previously reported. Complete Schedule D, Part II  
**g** Other amounts (specify) ▶ .....  
**h** **Net section 481(a) adjustment** (Combine lines 1a - 1g.)

Amount
\$
-104,500.00
-457,984.00
61,103.00
\$501,381.00

- 2** Is the applicant also requesting the recurring item exception under section 461(h)(3)? ☐ Yes ☐ No
- 3** Attach copies of the profit and loss statement (Schedule F (Form 1040) for farmers) and the balance sheet, if applicable, as of the close of the tax year preceding the year of change. On a separate sheet, state the accounting method used when preparing the balance sheet. If books of account are not kept, attach a copy of the business schedules submitted with the Federal income tax return or other return (e.g., tax-exempt organization returns) for that period. If the amounts in Part I, lines 1a through 1g, do not agree with those shown on both the profit and loss statement and the balance sheet, explain the differences on a separate sheet.

**Part II** **Change to the Cash Method For Advance Consent Request** (see instructions)

Applicants requesting a change to the cash method must attach the following information:

- 1** A description of inventory items (items whose production, purchase, or sale is an income-producing factor) and materials and supplies used in carrying out the business.  
**2** An explanation as to whether the applicant is required to use the accrual method under any section of the Code or regulations

**Schedule B - Change in Reporting Advance Payments** (see instructions)

- 1** If the applicant is requesting to defer advance payment for services under Rev. Proc. 71-21, 1971-2 C.B. 549, attach the following information:
- a** Sample copies of all service agreements used by the applicant that are subject to the requested change in accounting method. Indicate the particular parts of the service agreement that require the taxpayer to perform services.
  - b** If any parts or materials are provided, explain whether the obligation to provide parts or materials is incidental (of minor or secondary importance) to an agreement providing for the performance of personal services.
  - c** If the change relates to contingent service contracts, explain how the contracts relate to merchandise that is sold, leased, installed, or constructed by the applicant and whether the applicant offers to sell, lease, install, or construct without the service agreement.
  - d** A description of the method the applicant will use to determine the amount of income earned each year on service contracts and why that method clearly reflects income earned and related expenses in each year.
  - e** An explanation of how the method the applicant will use to determine the amount of gross receipts each year will be no less than the amount included in gross receipts for purposes of its books and records. See section 3.11 of Rev. Proc. 71-21.
- 2** If the applicant is requesting a deferral of advance payments for goods under Regulations section 1.451-5, attach the following information:
- a** Sample copies of all agreements for goods or items requiring advance payments used by the applicant that are subject to the requested change in accounting method. Indicate the particular parts of the agreement that require the applicant to provide goods or items.
  - b** A statement providing that the entire advance payment is for goods or items. If not entirely for goods or items, a statement that an amount equal to 95% of the total contract price is properly allocable to the obligation to provide activities described in Regulations section 1.451-5(a)(1)(i) or (ii) (including services as an integral part of those activities).
  - c** An explanation of how the method the applicant will use to determine the amount of gross receipts each year will be no less than the amount included in gross receipts for purposes of its books and records. See Regulations section 1.451-5(b)(1).

**Schedule C - Changes Within the LIFO Inventory Method (see instructions)****Part I General LIFO Information**

Complete this section if the requested change involves changes within the LIFO inventory method. Also, attach a copy of all **Forms 970, Application To Use LIFO Inventory Method**, filed to adopt or expand the use of the LIFO method.

- 1** Attach a description of the applicant's present and proposed LIFO methods and submethods for each of the following items:
  - a** Valuing inventory (e.g., unit method or dollar-value method).
  - b** Pooling (e.g., by line or type or class of goods, natural business unit, multiple pools, raw material content, simplified dollar-value method, inventory price index computation (IPIC) pools, etc.)
  - c** Pricing dollar-value pools (e.g., double-extension, index, link-chain, link-chain index, IPIC method, etc.).
  - d** Determining the current year cost of goods in the ending inventory (e.g., most recent purchases, earliest acquisitions during the year, average cost of purchases during the year, etc.).
- 2** If any present method or submethod used by the applicant is not the same as indicated on Form(s) 970 filed to adopt or expand the use of the method, attach an explanation.
- 3** If the proposed change is not requested for all the LIFO inventory, specify the inventory to which the change is and is not applicable.
- 4** If the proposed change is not requested for all of the LIFO pools, specify the LIFO pool(s) to which the change is applicable.
- 5** Attach a statement addressing whether the applicant values any of its LIFO inventory on a method other than cost. For example, if the applicant values some of its LIFO inventory at retail and the remainder at cost, the applicant should identify which inventory items are valued under each method.
- 6** If changing to the IPIC method, attach a completed Form 970 and a statement indicating the indexes, tables, and categories the applicant proposes to use.

**Part II Change in Pooling Inventories**

- 1** If the applicant is proposing to change its pooling method or the number of pools, attach a description of the contents of, and state the base year for, each dollar-value pool the applicant presently uses and proposes to use.
- 2** If the applicant is proposing to use natural business unit (NBU) pools or requesting to change the number of NBU pools, attach the following information (to the extent not already provided) in sufficient detail to show that each proposed NBU was determined under Regulations section 1.472-8(b)(1) and (2):
  - a** A description of the types of products produced by the applicant. If possible, attach a brochure.
  - b** A description of the types of processes and raw materials used to produce the products in each proposed pool.
  - c** If all of the products to be included in the proposed NBU pool(s) are not produced at one facility, the applicant should explain the reasons for the separate facilities, indicate the location of each facility, and provide a description of the products each facility produces.
  - d** A description of the natural business divisions adopted by the taxpayer. State whether separate cost centers are maintained and if separate profit and loss statements are prepared.
  - e** A statement addressing whether the applicant has inventories of items purchased and held for resale that are not further processed by the applicant, including whether such items, if any, will be included in any proposed NBU pool.
  - f** A statement addressing whether all items including raw materials, goods-in-process, and finished goods entering into the entire inventory investment for each proposed NBU pool are presently valued under the LIFO method. Describe any items that are not presently valued under the LIFO method that are to be included in each proposed pool.
  - g** A statement addressing whether, within the proposed NBU pool(s), there are items both sold to unrelated parties and transferred to a different unit of the applicant to be used as a component part of another product prior to final processing.
- 3** If the applicant is engaged in manufacturing and is proposing to use the multiple pooling method or raw material content pools, attach information to show that each proposed pool will consist of a group of items that are substantially similar. See Regulations section 1.472-8(b)(3).
- 4** If the applicant is engaged in the wholesaling or retailing of goods and is requesting to change the number of pools used, attach information to show that each of the proposed pools is based on customary business classifications of the applicant's trade or business. See Regulations section 1.472-8(c).

**Schedule D - Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other Section 263A Assets (see instructions)**
**Part I Change in Reporting Income From Long-Term Contracts (Also complete Part III on pages 7 and 8)**

- 1 To the extent not already provided, attach a description of the applicant's present and proposed methods for reporting income and expenses from long-term contracts. If the applicant is a construction contractor, include a detailed description of its construction activities.
- 2a Are the applicant's contracts long-term contracts as defined in section 460(f)(1) (see instructions)? . . . ☐ Yes ☐ No
- b If Yes, do all the contracts qualify for the exception under section 460(e) (see instructions)? . . . ☐ Yes ☐ No  
If line 2b is No, attach an explanation.
- c If line 2b is Yes, is the applicant requesting to use the percentage-of-completion method using cost-to-cost under Regulations section 1.460-4(b)? . . . ☐ Yes ☐ No
- d If line 2c is No, is the applicant requesting to use the exempt-contract percentage-of-completion method under Regulations section 1.460-4(c)(2)? . . . ☐ Yes ☐ No  
If line 2d is Yes, explain what cost comparison the applicant will use to determine a contract's completion factor.  
If line 2d is No, explain what method the applicant is using and the authority for its use.
- 3a Does the applicant have long-term manufacturing contracts as defined in section 460(f)(2)? . . . ☐ Yes ☐ No
- b If Yes, explain the applicant's present and proposed method(s) of accounting for long-term manufacturing contracts.
- c Describe the applicant's manufacturing activities, including any required installation of manufactured goods
- 4 To determine a contract's completion factor using the percentage-of-completion method.
- a Will the applicant use the cost-to-cost method in Regulations section 1.460-4(b)? . . . ☐ Yes ☐ No
- b If line 4a is No, is the applicant electing the simplified cost-to-cost method (see section 460(b)(3) and Regulations section 1.460-5(c))? . . . ☐ Yes ☐ No
- 5 Attach a statement indicating whether any of the applicant's contracts are either cost-plus long-term contracts or Federal long-term contracts.

**Part II Change in Valuing Inventories Including Cost Allocation Changes (Also complete Part III on pages 7 and 8)**

- 1 Attach a description of the inventory goods being changed.
- 2 Attach a description of the inventory goods (if any) NOT being changed.
- 3 If the applicant is subject to section 263A, is its present inventory valuation method in compliance with section 263A (see instructions)? . . . ☐ Yes ☐ No

**4a Check the appropriate boxes below.**
**Identification methods:**

Specific identification . . . . .

FIFO . . . . .

LIFO . . . . .

Other (attach explanation) . . . . .

**Valuation methods:**

Cost . . . . .

Cost or market, whichever is lower . . . . .

Retail cost . . . . .

Retail, lower of cost or market . . . . .

Other (attach explanation) . . . . .

- b Enter the value at the end of the tax year preceding the year of change . . . . .
- 5 If the applicant is changing from the LIFO inventory method to a non-LIFO method, attach the following information (see instructions).

- a Copies of Form(s) 970 filed to adopt or expand the use of the method
- b **Only for applicants requesting advance consent.** A statement describing whether the applicant is changing to the method required by Regulations section 1.472-6(a) or (b), or whether the applicant is proposing a different method.
- c **Only for applicants requesting an automatic change.** Attach the statement required by section 10.01(4) of the Appendix of Rev. Proc. 2002-9 (or its successor).

Inventory Being Changed		Inventory Not Being Changed
Present method	Proposed method	Present method

**Part III Method of Cost Allocation** (Complete this part if the requested change involves either property subject to section 263A or long-term contracts as described in section 460 (see instructions) )

**Section A - Allocation and Capitalization Methods**

Attach a description (including sample computations) of the present and proposed method(s) the applicant uses to capitalize direct and indirect costs properly allocable to real or tangible personal property produced and property acquired for resale, or to allocate and, where appropriate, capitalize direct and indirect costs properly allocable to long-term contracts. Include a description of the method(s) used for allocating indirect costs to intermediate cost objectives such as departments or activities prior to the allocation of such costs to long-term contracts, real or tangible personal property produced, and property acquired for resale. The description must include the following:

- 1 The method of allocating direct and indirect costs (i.e., specific identification, burden rate, standard cost, or other reasonable allocation method)
- 2 The method of allocating mixed service costs (i.e., direct reallocation, step-allocation, simplified service cost using the labor-based allocation ratio, simplified service cost using the production cost allocation ratio, or other reasonable allocation method)
- 3 The method of capitalizing additional section 263A costs (i.e., simplified production with or without the historic absorption ratio election, simplified resale with or without the historic absorption ratio election including permissible variations, the U.S. ratio, or other reasonable allocation method).

**Section B - Direct and Indirect Costs Required To Be Allocated** (Check the appropriate boxes in Section B showing the costs that are or will be fully included, to the extent required, in the cost of real or tangible personal property produced or property acquired for resale under section 263A or allocated to long-term contracts under section 460. Mark N/A in a box if those costs are not incurred by the applicant. If a box is not checked, it is assumed that those costs are not fully included to the extent required. Attach an explanation for boxes that are not checked.)

	Present method	Proposed method
1 Direct material . . . . .		
2 Direct labor . . . . .		
3 Indirect labor . . . . .		
4 Officers' compensation (not including selling activities) . . . . .		
5 Pension and other related costs . . . . .		
6 Employee benefits . . . . .		
7 Indirect materials and supplies . . . . .		
8 Purchasing costs . . . . .		
9 Handling, processing, assembly, and repackaging costs . . . . .		
10 Offsite storage and warehousing costs . . . . .		
11 Depreciation, amortization, and cost recovery allowance for equipment and facilities placed in service and not temporarily idle . . . . .		
12 Depletion . . . . .		
13 Rent . . . . .		
14 Taxes other than state, local, and foreign income taxes . . . . .		
15 Insurance . . . . .		
16 Utilities . . . . .		
17 Maintenance and repairs that relate to a production, resale, or long-term contract activity . . . . .		
18 Engineering and design costs (not including section 174 research and experimental expenses) . . . . .		
19 Rework labor, scrap, and spoilage . . . . .		
20 Tools and equipment . . . . .		
21 Quality control and inspection . . . . .		
22 Bidding expenses incurred in the solicitation of contracts awarded to the applicant . . . . .		
23 Licensing and franchise costs . . . . .		
24 Capitalizable service costs (including mixed service costs) . . . . .		
25 Administrative costs (not including any costs of selling or any return on capital) . . . . .		
26 Research and experimental expenses attributable to long-term contracts . . . . .		
27 Interest . . . . .		
28 Other costs (Attach a list of these costs.) . . . . .		

**Part III Method of Cost Allocation** (see instructions) (continued)**Section C - Other Costs Not Required To Be Allocated** (Complete Section C only if the applicant is requesting to change its method for these costs )

	Present method	Proposed method
1 Marketing, selling, advertising, and distribution expenses . . . . .		
2 Research and experimental expenses not included on line 26 above . . . . .		
3 Bidding expenses not included on line 22 above . . . . .		
4 General and administrative costs not included in Section B above . . . . .		
5 Income taxes . . . . .		
6 Cost of strikes . . . . .		
7 Warranty and product liability costs . . . . .		
8 Section 179 costs . . . . .		
9 On-site storage . . . . .		
10 Depreciation, amortization, and cost recovery allowance not included on line 11 above . . . . .		
11 Other costs (Attach a list of these costs.) . . . . .		

**Schedule E - Change in Depreciation or Amortization** (see instructions)

Applicants requesting approval to change their method of accounting for depreciation or amortization complete this section. Applicants must provide this information for each item or class of property for which a change is requested.

**Note:** See the **List of Automatic Accounting Method Changes** in the instructions for information regarding automatic changes under sections 56, 167, 168, 197, 1400l, 1400L, or former section 168. Do not file Form 3115 with respect to certain late elections and election revocations (see instructions).

- 1 Is depreciation for the property determined under Regulations section 1.167(a)-11 (CLADR)? ☐ Yes ☐ No  
If "Yes", the only changes permitted are under Regulations section 1.167(a)-11(c)(1)(iii).
- 2 Is any of the depreciation or amortization required to be capitalized under any Code section (e.g., section 263A)? ☐ Yes ☐ No  
If "Yes", enter the applicable section ▶ .....
- 3 Has a depreciation or amortization election been made for the property (e.g., the election under section 168(f)(1))? ☐ Yes ☐ No  
If "Yes", state the election made ▶ .....
- 4a To the extent not already provided, attach a statement describing the property being changed. Include in the description the type of property, the year the property was placed in service, and the property's use in the applicant's trade or business or income-producing activity.
- b If the property is residential rental property, did the applicant live in the property before renting it? . . . . ☐ Yes ☐ No
- c Is the property public utility property? . . . . . ☐ Yes ☐ No
- 5 To the extent not already provided in the applicant's description of its present method, explain how the property is treated under the applicant's present method (e.g., depreciable property, inventory property, supplies under Regulations section 1.162-3, nondepreciable section 263(a) property, property deductible as a current expense, etc.).
- 6 If the property is not currently treated as depreciable or amortizable property, provide the facts supporting the proposed change to depreciate or amortize the property.
- 7 If the property is currently treated and/or will be treated as depreciable or amortizable property, provide the following information under both the present (if applicable) and proposed methods:
  - a The Code section under which the property is or will be depreciated or amortized (e.g., section 168(g)).
  - b The applicable asset class from Rev. Proc. 87-56, 1987-2 C.B. 674, for each asset depreciated under section 168 (MACRS) or under section 1400L; the applicable asset class from Rev. Proc. 83-35, 1983-1 C.B. 745, for each asset depreciated under former section 168 (ACRS); an explanation why no asset class is identified for each asset for which an asset class has not been identified by the applicant.
  - c The facts to support the asset class for the proposed method.
  - d The depreciation or amortization method of the property, including the applicable Code section (e.g., 200% declining balance method under section 168(b)(1)).
  - e The useful life, recovery period, or amortization period of the property.
  - f The applicable convention of the property.

NARCONON SOUTHERN CALIFORNIA  
#33-0911677  
Attachment to Form 3115  
2005

Description of Trade(s) or Business(es):

The organization is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. At present it provides drug rehabilitation services, and conducts activities to make the general public aware of the adverse effects of alcohol and drug abuse, and the solution for these.

Statement Regarding Accounting Method Used in the Prior Year Balance Sheet.

The attached Statement of Assets, Liabilities and Net Assets as of December 31, 2004, and the related Statement of Activities for the year then ended, were prepared under the cash method of accounting

Computation of Section 481(a) adjustment:

Deferred revenue @ 12/31/04	(104,500) *
Refunds payable @ 12/31/04	(340,105)
Accounts payable @ 12/31/04	(117,879)
Prepaid expenses @ 12/31/04	<u>61,103</u>
Net Sec 481(a) adjustment.	<u>(501,381)</u>

\* Unearned revenues represent fees collected from individuals who had not started the program as of 12/31/04, and are therefore not includible in income under GAAP.

NARCONON SOUTHERN CALIFORNIA

FINANCIAL STATEMENTS

December 31, 2004

Roland W. Fink, CPA  
2441 Honolulu Ave., Suite 126  
Montrose, CA 91020

Phone: (818) 249-4577  
Fax: (818) 745-1291

To the Board of Directors and Trustees  
Narconon Southern California  
Newport Beach, California

I have compiled the accompanying Statement of Assets, Liabilities and Fund Balance – Cash Basis of Narconon Southern California (a not-for-profit Organization) as of December 31, 2004, and the related Statement of Activities – Cash Basis for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on the cash basis of accounting, which is a comprehensive method of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of the Organization's management. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or other form of assurance on them.

The Organization's management has elected to omit substantially all of the disclosures normally included in financial statements prepared on the cash basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Organization's assets, liabilities, fund balance, support and revenue, and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

/s/ Roland W. Fink, CPA

September 24, 2005



NARCONON SOUTHERN CALIFORNIA  
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE - CASH BASIS

as of December 31, 2004

ASSETS

Current Assets:	
Prepaid expenses	\$ 8,452
Total Current Assets	<u>8,452</u>
Property and Equipment:	
Land	488,426
Land Improvements	92,309
Buildings	2,733,817
Leasehold improvements	10,375
Furniture and equipment	136,477
Computers	46,067
Automotive equipment	108,336
Plant and technical equipment	<u>29,894</u>
Total Property and Equipment	3,645,701
Less accumulated depreciation	<u>(233,609)</u>
Net Property and Equipment	<u>3,412,092</u>
Other Assets:	
Due from Narconon Western United States	14,246
Security deposits	13,700
Construction in progress	22,372
Unamortized loan costs	<u>20,379</u>
Total Other Assets	<u>70,697</u>
 TOTAL ASSETS	 <u>\$ 3,491,241</u>

LIABILITIES AND FUND BALANCE

Current Liabilities:	
Current portion of mortgages payable	\$ 121,897
Credit cards payable	80,506
Bank overdraft	77,622
Sales taxes payable	2,963
Contracts payable for fixed asset purchases	218
Garnishments payable	<u>248</u>
Total Current Liabilities	283,454
 Mortgages Payable, less current portion	 2,399,855
 Fund Balance - Unrestricted	 <u>807,932</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 3,491,241</u>

See Accountant's Compilation Report.

NARCONON SOUTHERN CALIFORNIA  
STATEMENT OF ACTIVITIES - CASH BASIS

For the Year Ended December 31, 2004

SUPPORT AND REVENUE

Gifts received	\$ 9,325
Fees for drug rehabilitation program services	6,272,662
Books and materials	156,328
Interest income	90
Other revenue	<u>77,462</u>
Total Support and Revenue	<u>6,515,867</u>

EXPENSES

	Program Services	Management and General	Fund- raising	Total
Trademark license fees	\$ 555,629	\$ -	\$ -	\$ 555,629
Cost of books and materials sold	86,057	-	-	86,057
Compensation of officers	151,451	146,934	9,445	307,830
Other salaries and wages	943,541	729,787	12,710	1,686,038
Employee benefits	41,195	31,630	736	73,561
Payroll taxes	107,367	82,444	1,917	191,728
Accounting fees	-	21,800	-	21,800
Legal fees	-	58,221	-	58,221
Telephone	87,517	67,201	1,563	156,281
Postage and shipping	14,829	11,387	265	26,481
Occupancy	404,518	310,611	7,224	722,353
Equipment rental and maintenance	3,580	2,748	64	6,392
Printing and publications	15,305	-	-	15,305
Travel	26,634	26,634	-	53,268
Interest	46,335	35,579	827	82,741
Depreciation	53,937	41,416	963	96,316
Commissions	49,510	-	-	49,510
Insurance	58,655	45,041	1,047	104,743
Taxes	5,772	4,432	103	10,307
Utilities	78,314	60,135	1,398	139,847
Office and administrative	100,091	76,856	1,787	178,734
Rehabilitation program delivery - food	532,412	-	-	532,412
Rehabilitation program delivery - medical	516,980	-	-	516,980
Rehabilitation program delivery - vitamins	32,516	-	-	32,516
Rehabilitation program delivery - other	73,644	-	-	73,644
Repairs and maintenance	50,245	38,581	897	89,723
Dissemination	159,376	-	-	159,376
Automobile expense	73,448	56,396	1,312	131,156
Bank and credit card merchant fees	79,396	8,822	-	88,218
Outside services	-	29,136	-	29,136
Staff enhancement	56,803	43,616	1,014	101,433
Payroll service	6,347	4,874	113	11,334
Amortization - loan costs	1,465	1,125	26	2,616
Total Expenses	<u>\$ 4,412,869</u>	<u>\$ 1,935,406</u>	<u>\$ 43,411</u>	<u>\$ 6,391,686</u>

INCREASE IN FUND BALANCE

\$ 124,181

See Accountant's Compilation Report.



**NARCONON SOUTHERN CALIFORNIA**

**DECEMBER 31, 2005**



9454 Wilshire Blvd., 4th floor, Beverly Hills, CA 90212-2907 310/273-2501 telephone 310/859-0374 fax  
www.nsbns.com e-mail op@nsbn.com

August 31, 2006

## 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, 2005, 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 audits.

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, 2005 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, 2005

ASSETS

Cash and cash equivalents	\$ 977,272
Deposits and other assets	106,200
Property and equipment, net	<u>6,933,435</u>

TOTAL ASSETS	<u>\$ 8,016,907</u>
--------------	---------------------

LIABILITIES

Accounts payable and accrued liabilities	\$ 307,672
Loans payable	63,023
Mortgages payable	<u>5,900,554</u>

TOTAL LIABILITIES	6,271,249
-------------------	-----------

NET ASSETS - unrestricted	<u>1,745,658</u>
---------------------------	------------------

TOTAL LIABILITIES AND NET ASSETS	<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, 2005

REVENUES

Donations	\$ 139,647
Narconon program material sales	204,939
Program service revenue	9,501,172
Other revenue	<u>2,861</u>
TOTAL REVENUES	<u>9,848,619</u>

EXPENSES

Program services	
Drug rehabilitation services	5,900,857
Public awareness and information campaigns	1,393,471
Supporting services	
Management and General	1,097,070
Fundraising	<u>18,114</u>
TOTAL EXPENSES	<u>8,409,512</u>

CHANGE IN NET ASSETS - unrestricted	1,439,107
NET ASSETS - unrestricted, January 1, 2005	<u>306,551</u>
NET ASSETS - unrestricted, December 31, 2005	<u><u>\$ 1,745,658</u></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, 2005

	Program Services			Supporting Services		
	Drug Rehabilitation	Public Awareness	Total Program Services	Management and General	Fundraising	Total Expenses
Salaries and employee benefits	\$ 1,461,363	\$ 694,962	\$ 2,156,325	\$ 615,671	\$ 11,904	\$ 2,783,900
Payroll taxes	137,017	63,332	200,349	55,521	1,053	256,923
	<u>1,598,380</u>	<u>758,294</u>	<u>2,356,674</u>	<u>671,192</u>	<u>12,957</u>	<u>3,040,823</u>
Contributions to other nonprofit organizations	3,895	-	3,895	-	-	3,895
Cost of Narconon program materials sold	104,033	-	104,033	-	-	104,033
Insurance	77,336	35,746	113,082	31,336	595	145,013
Interest	154,383	71,358	225,741	62,558	1,187	289,486
Maintenance	101,183	20,237	121,420	13,491	-	134,911
Narconon program license	842,042	-	842,042	-	-	842,042
Office and administrative	201,223	54,436	255,659	63,116	905	319,680
Printing and promotion	10,683	129,588	140,271	4,329	82	144,682
Postage and shipping	36,510	16,876	53,386	14,794	281	68,461
Professional fees	32,332	14,782	47,114	17,970	245	65,329
Program delivery costs	1,481,985	-	1,481,985	-	-	1,481,985
Referral fees	113,729	-	113,729	-	-	113,729
Rent	535,948	107,743	643,691	72,033	16	715,740
Staff training	37,101	17,149	54,250	15,034	285	69,569
Taxes, dues and fees	1,172	234	1,406	156	-	1,562
Telephone	110,855	51,239	162,094	44,920	852	207,866
Travel	238,998	47,800	286,798	31,866	-	318,664
Utilities	126,872	25,374	152,246	16,916	-	169,162
	<u>5,808,660</u>	<u>1,350,856</u>	<u>7,159,516</u>	<u>1,059,711</u>	<u>17,405</u>	<u>8,236,632</u>
Total expenses before depreciation and amortization						
Amortization	8,829	4,081	12,910	3,578	68	16,556
Depreciation	83,368	38,534	121,902	33,781	641	156,324
	<u>5,900,857</u>	<u>1,393,471</u>	<u>7,294,328</u>	<u>1,097,070</u>	<u>18,114</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  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Net increase in net assets	\$ 1,439,107
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation and amortization	172,880
(Increase) decrease in assets:	
Accounts receivable	14,247
Deposits and other assets	(1,882)
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	<u>(341,182)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 1,283,170

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of land	(3,104,171)
Acquisition of building and improvements	(93,354)
Acquisition of equipment	(177,027)
Construction in progress costs	<u>(280,744)</u>

NET CASH USED IN INVESTING ACTIVITIES (3,655,296)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from loans payable	83,142
Repayments of loans payable	(20,119)
Proceeds from refinanced mortgage payable	774,000
Repayments of mortgage payable	(376,959)
Proceeds from mortgage payable	3,105,000
Principal payments on mortgages	(123,239)
Costs incurred for loan refinance	<u>(14,807)</u>

NET CASH PROVIDED BY FINANCING ACTIVITIES 3,427,018

NET INCREASE IN CASH AND CASH EQUIVALENTS 1,054,892

CASH AND CASH EQUIVALENTS, January 1, 2005 (77,620)

CASH AND CASH EQUIVALENTS, December 31, 2005 \$ 977,272

SUPPLEMENTAL CASH FLOW DISCLOSURE:

Interest paid	<u>\$ 289,486</u>
---------------	-------------------

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



NARCONON SOUTHERN CALIFORNIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 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 enable students to develop essential life skills. Graduates of the Narconon drug rehabilitation program are able to leave 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.

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, 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, 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, 2005.

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.

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:

NARCONON SOUTHERN CALIFORNIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

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

	<u>YEARS</u>
Building and building improvements	40
Land improvements	15
Furniture and equipment	5-7
Leasehold improvements	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.

Note 2 PROPERTY AND EQUIPMENT

Land	\$ 3,592,596
Building and building improvements	2,785,418
Land improvements	103,021
Furniture and equipment	287,673
Leasehold improvements	41,416
Vehicles	<u>210,128</u>
	7,020,252
Less: accumulated depreciation	<u>(389,933)</u>
	6,630,319
Construction in progress	<u>303,116</u>
	<u>\$ 6,933,435</u>

Land and buildings with original combined purchase prices of approximately \$6,481,000 are pledged as collateral for the mortgages payable (Note 3).

Vehicles with original combined purchase prices of approximately \$98,000 are pledged as collateral for the loans payable (Note 4)

NARCONON SOUTHERN CALIFORNIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

Note 3 MORTGAGES PAYABLE

Mortgage payable due on or before August 22, 2010 secured by a first deed of trust; the agreement provides for the first 16 monthly payments to be interest only. The initial 6 interest only payments will be paid at 5.00%. The subsequent 10 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 12 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

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.

2,053,770

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.

741,784

\$ 5,900,554

Five year maturities are as follows:

2006	\$ 167,071
2007	208,589
2008	232,045
2009	250,210
2010	3,253,162
Thereafter	<u>1,789,477</u>
	<u>\$ 5,900,554</u>

Note 4 LOANS PAYABLE

Loan payable to finance company due on November 11, 2008, secured by vehicle, with monthly payments of \$874, including interest at 8.49% per annum. Prepayments are subject to penalty finance charges.

\$ 20,899

NARCONON SOUTHERN CALIFORNIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

Note 4 LOANS PAYABLE (Continued)

Loan payable to finance company due on November 11, 2008, secured by 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 vehicle, with monthly payments of \$880, including interest at 8.49% per annum. Prepayments are subject to penalty finance charges. 21,062

\$ 63,023

Five year maturities are as follows.

2006	\$	27,295
2007		29,706
2008		6,021
2009		-
2010		-

\$ 63,023

Note 5 OPERATING LEASES

NN South CA has a noncancellable operating lease on one of its main premises expiring in 2010. Total rent expense under this operating lease was approximately \$293,000 for 2005.

NN South CA has noncancellable operating leases on portions of its premises expiring through 2007. Total rent expense under these operating leases was approximately \$108,000 for 2005.

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

2006	\$	174,665
2007		105,082
2008		70,062
2009		70,062
2010		23,354

\$ 443,225

NARCONON SOUTHERN CALIFORNIA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

Note 6 RELATED PARTY TRANSACTIONS

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

NN South CA is also related to Narconon Western United States and Association For Better Living & Education International (ABLE), both of which are tax-exempt nonprofit corporations.

All license fees paid were paid to related parties

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

Note 7 CONCENTRATION OF CREDIT RISK

Cash and cash equivalents include approximately \$1,062,000 in 2005, 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 8 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.