T.E.R.I., INC. & AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

INDEPENDENT AUDITORS' REPORT

T.E.R.I., INC. & AFFILIATES

June 30, 2016

KAKU & MERSINO, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
T.E.R.I., Inc. & Affiliates

Report on the Financial Statements

We have audited the accompanying financial statements of T.E.R.I., Inc. & Affiliates (nonprofit organizations), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of T.E.R.I., Inc. & Affiliates' as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of T.E.R.I., Inc. & Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering T.E.R.I., Inc. & Affiliates' internal control over financial reporting and compliance.

Kaku + Mersino, LLP

KAKU & MERSINO, LLP

December 19, 2016

1588 Shaw Ave • Clovis, CA 93611 • 559/324-7097 • Fax 559/324-7180

T.E.R.I., INC. & AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

ASSETS

Cash	$	284,890
Accounts Receivable		1,565,284
Grants Receivable		337,101
Contributions Receivable		480,402
Prepaid Expenses		75,788
Investments		10,051
Client Trust Accounts		42,250
Deposits		137,634
Construction in Progress		5,606,596
Property and Equipment, net		10,708,191
TOTAL ASSETS	$	19,248,187

LIABILITIES

Accounts Payable	$	290,113
Salaries and Benefits Payable		565,342
Accrued Expenses		338,832
Deferred Revenue		137,833
Line of Credit		650,000
Accrued Interest		96,682
Client Trust Accounts		42,250
Capital Lease		16,511
Notes Payable		2,827,593
TOTAL LIABILITIES		4,965,156

NET ASSETS

Unrestricted		12,812,482
Temporarily Restricted		1,470,549
TOTAL NET ASSETS		14,283,031
TOTAL LIABILITIES AND NET ASSETS	$	19,248,187

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

T.E.R.I., INC. & AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE and SUPPORT			
Program Service Fees			
Residential	$ 5,246,448		$ 5,246,448
Adult Day Programs	4,261,155		4,261,155
Non Public Schools	4,363,707		4,363,707
Respite	1,352,921		1,352,921
Rental Income	554,281		554,281
Transportation	520,737		520,737
Total Program Service Fees	16,299,249	-	16,299,249
Public Support			
Contributions	874,984	378,000	1,252,984
Grants	517,202		517,202
Total Public Support	1,392,186	378,000	1,770,186
Other Revenue			
Thrift Store Sales $266,128			
Cost of Sales (31,923)	234,205		234,205
Miscellaneous	558,423		558,423
Gain on Investments	36		36
Total Other Revenue	792,664	-	792,664
Net assets released from restrictions	29,047	(29,047)	-
TOTAL SUPPORT and REVENUE	18,513,146	348,953	18,862,099
EXPENSES			
Program Services	15,735,760		15,735,760
Supporting Services			
Management and General	2,092,460		2,092,460
Development	620,170		620,170
Total Supporting Services	2,712,630	-	2,712,630
TOTAL EXPENSES	18,448,390	-	18,448,390
INCREASE/(DECREASE) IN NET ASSETS	64,756	348,953	413,709
NET ASSETS, BEGINNING OF YEAR	12,747,726	1,121,596	13,869,322
NET ASSETS, END OF YEAR	$ 12,812,482	$ 1,470,549	$ 14,283,031

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

T.E.R.I., INC. & AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services						
	Residential	Adult Day Programs	Non Public Schools	Respite	Transportation	Potpourri Thrift Store	Equestrian
Salaries	$ 2,830,690	$ 2,663,258	$ 2,525,627	$ 495,856	$ 356,096	$ 109,377	$ 102,068
Payroll taxes	205,963	191,305	183,116	37,119	26,483	8,437	7,591
Health insurance/Wellness	133,274	340,482	298,984	15,109	7,228	13,224	7,405
Workers compensation	148,207	53,393	45,428	21,914	19,973	5,796	1,810
Client activities	23,713	4,401	1,946	10,721	-	-	-
Vocational service	-	36,203	4,064	-	-	-	-
Vehicle expense	-	-	-	-	374,268	-	-
Information Technology	9,299	22,302	16,370	538	16,235	3,607	4,654
Office supplies and expense	2,412	6,955	12,435	672	11	-	266
Advertising	17,028	20,226	10,044	7,243	1,058	4,397	544
Utilities	53,493	91,812	111,794	7,566	-	9,886	22,014
Interest	-	-	-	-	-	-	5,983
Dues and subscriptions	1,925	1,860	5,179	200	30	-	80
Insurance	820	2,569	2,486	39	-	4,418	5,974
Depreciation	3	2,904	2,597	-	204,940	-	131,898
Rent	206,081	250,957	206,423	14,845	2,250	29,790	-
Unreimbursed Services	136,365	43,831	-	21,684	11,126	-	35
Bank charges	-	-	-	-	-	4,107	-
Business promotion	-	-	-	-	-	-	-
Taxes and licenses	44,565	757	3,843	-	-	-	-
Seminars	80	7,352	42	-	-	-	210
Auto allowance and mileage	47,226	37,421	12,711	92,193	7,490	3,720	360
Food	250,194	-	-	-	-	-	-
Household supplies	83,172	15,051	4,844	50	458	1,654	10,475
Equipment rental	2,661	25,465	19,101	935	-	9,267	1,151
Outside services	80,861	83,360	193,486	1,261	2,421	3,321	14,357
Program supplies	31,844	110,416	33,518	2,700	379	1,331	13,815
Repairs and maintenance	25,766	33,008	30,152	2,358	145	1,582	4,922
Medi-Cal quality assurance fee	274,159	-	-	-	-	-	-
Medications	38,420	-	-	-	-	-	-
	$ 4,648,221	$ 4,045,288	$ 3,724,190	$ 733,003	$ 1,030,591	$ 213,914	$ 335,612
Percentage	25.2%	21.9%	20.2%	4.0%	5.6%	1.2%	1.8%

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

T.E.R.I., INC. & AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	Program Services			Supporting Services			
	IALQ	HUD Affiliates	Program Services Total	Management and General	Development	Supporting Services Total	Total
Salaries	$ 14,662	$ 197,914	$ 9,295,548	$ 1,055,717	$ 195,777	$ 1,251,494	$ 10,547,042
Payroll taxes	1,135	13,620	674,769	97,482	14,124	111,606	786,375
Health insurance/Wellness	543	12,484	828,733	29,566	15,396	44,962	873,695
Workers compensation	166	10,674	307,361	10,379	1,965	12,344	319,705
Client activities	-	-	40,781	-	-	-	40,781
Vocational service	-	-	40,267	-	-	-	40,267
Vehicle expense	-	-	374,268	-	-	-	374,268
Information Technology	768	15,250	89,023	94,234	6,089	100,323	189,346
Office supplies and expense	-	236	22,987	27,207	3,394	30,601	53,588
Advertising	161	-	60,701	5,881	2,401	8,282	68,983
Utilities	-	184,016	480,581	34,070	2,816	36,886	517,467
Interest	-	5,259	11,242	74,772	-	74,772	86,014
Dues and subscriptions	1,983	3,619	14,876	56,469	6,424	62,893	77,769
Insurance	-	32,931	49,237	44,654	-	44,654	93,891
Depreciation	-	284,995	627,337	480	-	480	627,817
Rent	450	-	710,796	55,255	5,601	60,856	771,652
Unreimbursed Services	-	-	213,041	168,537	139,810	308,347	521,388
Bank charges	-	756	4,863	13,264	8,999	22,263	27,126
Business promotion	-	-	-	30,255	12,848	43,103	43,103
Taxes and licenses	-	7,744	56,909	979	-	979	57,888
Seminars	-	-	7,684	8,129	2,209	10,338	18,022
Auto allowance and mileage	520	12,421	214,062	51,006	18,332	69,338	283,400
Food	-	-	250,194	-	-	-	250,194
Household supplies	-	20,586	136,290	13,641	650	14,291	150,581
Equipment rental	-	-	58,580	28,597	19,015	47,612	106,192
Outside services	4,232	124,178	507,477	122,748	157,837	280,585	788,062
Program supplies	739	-	194,742	46,367	5,425	51,792	246,534
Repairs and maintenance	-	52,899	150,832	22,771	1,058	23,829	174,661
Medi-Cal quality assurance fee	-	-	274,159	-	-	-	274,159
Medications	-	-	38,420	-	-	-	38,420
	$ 25,359	$ 979,582	$ 15,735,760	$ 2,092,460	$ 620,170	$ 2,712,630	$ 18,448,390
	0.1%	5.3%	85.3%	11.3%	3.4%	14.7%	100.0%

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

T.E.R.I., INC. & AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$	413,709
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation		627,817
Provision for Bad Debts		183,000
Unrealized (Gain)/Loss on Investments		(36)
(Increase) Decrease in Assets:		
Accounts Receivable		278,600
Grants Receivable		(9,396)
Contribution Receivable		(143,321)
Prepaid Expenses and Other Assets		(7,784)
Deposits		6,050
Increase (Decrease) in Liabilities:		
Accounts Payable		(583,609)
Salaries and Benefits Payable		87,256
Accrued Expenses		89,140
Deferred Revenue		131,082
Accrued Interest		7,359
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,079,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and Equipment		(144,435)
Increase Construction in Progress		(357,695)
Change in Investments		(1,493)
NET CASH USED BY INVESTING ACTIVITIES		(503,623)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Line of Credit		750,000
Paydown on Line of Credit		(1,100,000)
Payments on Capital Lease		(9,006)
Payments on Debt		(479,820)
NET CASH USED BY FINANCING ACTIVITIES		(838,826)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(262,582)
BEGINNING CASH AND CASH EQUIVALENTS		547,472
ENDING CASH AND CASH EQUIVALENTS	$	284,890

Supplemental Disclosures of Cash Flow Information:

Cash paid during year for interest $78,655.

Noncash Financing: - Debt of $210,700 for purchase of vehicles.

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

Note 1 – Nature of Activities

T.E.R.I., Inc. (Training, Education, Research, & Innovation) (the Agency) was incorporated August 21, 1980, as a California nonprofit corporation dedicated to the rehabilitation and therapy of developmentally disabled individuals in San Diego County. The Agency provides residential group homes as intermediate care facilities, operates an adult development center with community based and behavior management programs, two non-public schools, related transportation services and a therapeutic equestrian program, as well as other programs for its clients and their families. In addition, it operates a thrift store and carries out various research and fundraising activities.

Medi-Cal provides partial reimbursement for the operation of the residential group homes, and the State of California provides partial reimbursement for the operation of vocational training, transportation, and respite programs. Local school districts provide partial reimbursement for the operation of educational programs.

Note 2 – Summary of Significant Accounting Policies

Principles of Consolidation

The Agency consolidates related nonprofit corporations in which it has a controlling financial interest. The corporations were established to operate residential facilities to provide individuals with developmental and learning disabilities with housing and services specifically designed to meet their physical, social, and psychological needs and to promote their health, security, happiness and usefulness. The accompanying financial statements reflect the consolidation of the financial statements of the Agency and its affiliates: The Roher Foundation, Ted Williams Housing Corporation, Mitchell Housing Corporation, Martin Housing Corporation, Mara Housing Corporation, Jarred DeZonia Foundation, Wendell Starling Home, McNealy Housing Corporation, Susan Parham Housing Corporation, and Joseph Michalowski Housing Corporation. The affiliate organizations are regulated by the U.S. Department of Housing & Urban Development (HUD) and are nonprofit public benefit corporations exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Service Code. The Roher Foundation is also audited separately as a single audit in accordance with Uniform Guidance as required by HUD.

Basis of Accounting

The financial statements of the Agency are prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and liabilities.

Note 2 – Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Accordingly, actual results could differ from those estimates.

Basis of Presentation

The Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. The Agency considers all contributions as available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, or restricted by the donor for specific purposes are reported as either temporarily restricted or permanently restricted. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the contribution as unrestricted.

Temporarily restricted net assets contain donor-imposed restrictions that permit the Agency to use or expend the assets as specified. The restrictions are satisfied by either the passage of time, or by the actions of the Agency.

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resource be maintained permanently, but may or may not permit the Agency to use, or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Contributed Volunteer Services

Contributed services throughout the year are not recognized as contributions in the financial statements since there is no provision in the accounting regulations. However, many individuals volunteer time and perform a variety of tasks that assist the Agency.

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Note 2 – Summary of Significant Accounting Policies (Continued)

Expense Allocations

The costs of providing various programs and other activities 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 among the programs and supporting services benefited.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Agency considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

Investments in marketable equity securities with readily determinable fair values are stated at fair value. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Accounts and Grants Receivable

Accounts receivable are amounts due from various agencies and entities for services performed under fee for service contracts. Grants receivable are amounts due from federal, state, or local funding sources for services performed under cost reimbursement contracts. Management estimated a provision of $283,000 for allowance for doubtful accounts which is included in accounts and grants receivable.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise becomes unconditional. Due to the nature of contributions, significant increases and decreases in net assets may occur. These significant fluctuations can arise as contributions are recognized as support in the fiscal period in which they are contributed, but the expense incurred with such contributions occur in a different period. Or, the contributions may be used to purchase property and equipment that is capitalized and depreciated over several periods.

Note 2 – Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment purchased with Agency funds are capitalized at cost and depreciated over the useful estimated lives of the asset using the straight-line method. Amortization of building improvements is based on the estimated useful life of the improvements. Expenditures for property and equipment in excess of $5,000 are capitalized.

Contributed property and equipment are recorded at fair value on the date of donation. Contributions of property and equipment are recorded as unrestricted support, unless the donor stipulates how long the assets must be used.

In the unlikely event of a contract termination, certain funding sources require title to property and equipment previously purchased with grant funds revert to the funding source. Certain funding sources also limit the use of property and equipment for specific programs and require approval for disposition of property and equipment from the funding source.

Depreciation is calculated based on the following estimated useful lives:

Type of Asset	Estimated Useful Life
Equipment	4-10 years
Improvements	5-20 years
Buildings - residences	25 years

Deferred Revenue

Unearned grant awards that are determined to be exchange transactions are classified as deferred revenue until expended for the purpose of the grants.

Income Taxes

The Agency is a nonprofit organization defined in Section 501 (c)(3) of the Internal Revenue Code (the "Code") and is, therefore, exempt from federal income taxation under Section 501(a) of the Code. Furthermore, the Agency is exempt from state income taxation under Section 23701d of the California Revenue and Taxation Code. The Agency's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Subsequent Events

Management has evaluated subsequent events through December 19, 2016, the date the financial statements were available to be issued.

Note 3 – Cash and Cash Equivalents

Cash and Cash Equivalents consist of the following at June 30, 2016:

	Amount
Cash	$ 150,679
Replacement Reserves	134,211
Total	$ 284,890

The Agency maintains cash balances at two financial institutions located in San Diego, California. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The amount in excess of the insured limits at June 30, 2016, total $471,789.

In accordance with applicable regulations, HUD requires the affiliate corporations to maintain a replacement reserve to help fund extraordinary maintenance, repairs, and replacement of capital items. Monthly deposits are required. Use of the replacement reserve account is contingent upon HUD's prior written approval.

Note 4 – Contributions Receivable

Contributions receivable represent promises to give made by donors that are not yet received by the Agency. Contributions that will be received in subsequent years are discounted using a risk-free rate of return. The Agency considers contributions receivable fully collectible. Accordingly, no allowance for uncollectible contributions has been provided.

	Amount
Amount of Receivable due:	
Less than one year	$ 249,546
One to five years	225,556
More than five years	5,300
Total	$ 480,402

Contributions receivable at June 30, 2016, consist primarily of unconditional promises to give from individual donors that are restricted for the construction of the Charles R. Cono Campus of Life (the Campus). The Agency has an ongoing capital campaign to raise funds for the Campus. The Campus will accommodate the Agency's model programs and research and will serve as a diagnostic and training center not only for San Diego, but is anticipated to be accessed worldwide. The Campus will allow the Agency's non-residential programs to relocate to one site and will provide space for future model program development.

Note 5 – Investments – Fair Value Measurements

Fair values measured on a recurring basis at June 30, 2016 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
Investment in Equity Securities	$ 10,051	$ 10,051

Note 6 – Construction in Progress

The following is a summary of Construction in Progress at June 30, 2016. Interest cost of $53,851 were capitalized during the fiscal year:

	Amount
Charles R. Cono Campus of Life	$ 5,606,596
Total	$ 5,606,596

Charles R. Cono Campus of Life - In July 2003, the Agency purchased about 20 acres of land for the future site of the Charles R. Cono Campus of Life located in the Twin Oaks Valley area of unincorporated San Diego County, California. The Campus will accommodate the educational, research and therapeutic programs operated by the Agency, including relocation of the adult training and education programs, the Learning Academy, the Country School, and the corporate-sponsored child care programs.

Note 7 – Client Trust Accounts

Client trust funds of $42,250 at June 30, 2016, represent cash held in a fiduciary capacity for the personal and incidental cost of the residents of the various properties. Accordingly, there is an equivalent liability reported on the statement of financial position as this cash is not available for general Agency use.

Note 8 – Property and Equipment, Net

Property and equipment consist of the following at June 30, 2016:

	Amount
Residences	$ 6,294,724
Deer Springs Campus	3,180,201
Land	2,160,395
Leasehold Improvements	2,003,807
Vehicles	1,192,675
Equipment	204,700
Total	15,036,502
Less Accumulated Depreciation	(4,328,311)
Property and Equipment, Net	$ 10,708,191

Depreciation expense was $627,817 for the year ended June 30, 2016.

Note 9 – Line of Credit

The Agency has a $1,300,000 line of credit with a financial institution. The line of credit is secured by the Agency's inventory, equipment, accounts receivable, and general intangibles and requires compliance with certain loan covenants. Interest on outstanding borrowings is 3.75% and has a balance of $650,000 as of June 30, 2016. The line of credit matures on March 15, 2017, which management expects to renew.

Note 10 – Notes Payable

Notes payable consist of the following at June 30, 2016:

	Amount
Promissory note payable to a financial institution in monthly payments of principal and interest of $18,648. Interest is at 5.162% per annum. The note is due November 22, 2021, and is secured by a first deed of trust.	$ 1,050,550
Promissory note payable to a financial institution in monthly payments of principal and interest of $17,242. Variable interest at 4.27% per annum. The note is due November 10, 2018, and is secured by accounts receivable, equipment and general intangibles.	473,646
Promissory note payable to State of California with interest at 3%. Principal and interest due June 30, 2012, or upon receipt of construction or permanent financing. The note is secured by a deed of trust.	350,000
Note payable to the County of San Diego, Department of Housing and Community Development. The note bears interest at 3% per annum, which shall not be compounded. The principal and accrued interest is deferred until 2042. This note is secured by a deed of trust, subordinate to the deed of trust in favor of HUD. See Capital Advance Note below.	70,000
Note payable to the County of San Diego, Department of Housing and Community Development. The note bears interest at 3% per annum, which shall not be compounded. The principal and accrued interest is deferred until 2042. This note is secured by a deed of trust, subordinate to the deed of trust in favor of HUD. See Capital Advance Note below.	61,831
Note payable to the County of San Diego, Department of Housing and Community Development. The note bears interest at 3% per annum, which shall not be compounded. The principal and accrued interest is deferred until 2041. This note is secured by a deed of trust, subordinate to the deed of trust in favor of HUD. See Capital Advance Note below.	110,313
Note payable held by a lender through Federal Home Loan Bank of San Francisco in the amount of $40,000. The indebtedness by the note does not bear any interest. The maturity date of the note is December 2028. The deed of trust contains certain provisions for acceleration of the maturity of the note.	40,000
Note payable to a contractor with interest at 5%. The maturity date of the note is September 30, 2016.	247,710
Twenty three notes payable in monthly payments of interest and principal totaling approximately $11,000 including interest at rates ranging from 0 to 5.75%, The notes are generally 60 months and are collateralized by vehicles.	423,543
Total	$ 2,827,593

Note 10 – Notes Payable (continued)

Current portion of the Line of Credit and Notes Payable is $1,384,695 for year ending June 30, 2016.

The following is a schedule of future minimum principal payments as of June 30, 2016:

Year Ending June 30:	Amount
2017	$ 734,695
2018	495,910
2019	361,680
2020	255,181
2021	248,691
Thereafter	731,436
	$ 2,827,593

Note 11 – Related Party Transactions

TERI rents a residence from a key employee for use as a residential group home. TERI pays $3,703 per month on a ten-year lease. The amount paid for the year ending June 30, 2016 was $44,436. TERI has started the process to purchase the home and has paid a $50,000 deposit which is included in deposits on the statement of financial position.

Note 12 – Commitments and Contingencies

Operating Leases

The Agency has commitments under various operating leases for facilities and equipment used for programs and administrative offices. Property and equipment rental expense incurred under these leases totaled $877,844 for the year ended June 30, 2016.

Future minimum lease payments under operating lease are as follows:

Year Ending June 30:	
2017	$ 374,294
2018	88,785
2019	40,832
2020	0
2021	0

Note 12 – Commitments and Contingencies (continued)

Capital Leases

The Agency leases an auto under a capital lease. The economic substance of the lease is that the Agency is financing the acquisition of the asset through the lease, and, accordingly, it's recorded in the Agency's assets and liabilities. Property and equipment includes $40,938 and accumulated depreciation of $32,410 as of June 30, 2016. Amortization of assets held under capital lease is included in depreciation expense.

Future minimum payments required under the lease are as follows:

Year Ending June 30:	
2017	$ 9,006
2018	7,506
2019	0
2020	0
2021	0

Capital Advance Note

HUD holds Capital Advance Notes on residential real property. The notes bear no interest and are not required to be repaid as long as the housing remains available to eligible disabled persons for 40 years. If the housing becomes unavailable for such purposes, the entire capital advance outstanding and interest since inception would be due and payable. The affiliate corporations have met the requirements during its operating period and intend to continue to meet these requirements for the remaining term of the loan. Accordingly, the Capital Advance Note proceeds were previously recorded as grant revenue and are classified as unrestricted net assets. The Capital Advance Notes are secured by deeds of trust on the affiliate corporation's real property. The Capital Advance Notes are as follows:

The Roher Foundation	$ 710,200
Ted Williams Housing Corporation	372,500
Mitchell Housing Corporation	380,600
Martin Housing Corporation	380,600
Mara Housing Corporation	386,900
Jarred DeZonia Foundation	386,900
Wendell Starling Home	518,500
McNealy Housing Corporation	561,700
Susan Parham Housing Corporation	582,993
Joseph Michalowski Housing Corporation	582,900
Total	$ 4,863,793

Note 12 – Commitments and Contingencies (continued)

Community Development Block Grant Funding

In November 2008 the Joseph Michalowski Housing Corporation entered into an agreement with the City of Carlsbad for Community Development Block Grant (CDBG) funding of $795,000 for the acquisition of residential property for a group home in Carlsbad to serve persons with autism or developmental disabilities. The term of the note is 20 years. The loan shall be due and payable in full upon 1) the date the property is first sold or transferred, or, 2) upon failure to operate a group home on the property, if it occurs prior to the expiration of the term of the loan. The loan shall be forgivable upon expiration of the term of the loan if the property has been maintained and operated as a group home. The Corporation has met these requirements during its operating period and intends to continue to meet these requirements during the remaining period of the agreement. These funds are included in unrestricted net assets.

Community Development Loan Funding

In November 2009 TERI, Inc. entered into an agreement with the City of Vista for loan funding of $325,000. The agreement requires the use of funds to improve real property and the real property be used for limited purposes. Interest accrues at 5% per annum. The term of the note is 55 years. The loan shall be due and payable in full upon 1) the date the property is first sold or transferred, or, 2) upon failure to operate a group home on the property, if it occurs prior to the expiration of the term of the loan. The loan shall be forgivable upon expiration of the term of the loan if the property has been maintained and operated as a group home. TERI, Inc. has met these requirements during its operating period and intends to continue to meet these requirements during the remaining period of the agreement. These funds are included in unrestricted net assets.

KAKU & MERSINO, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINACIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
T.E.R.I., Inc. & Affiliates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of T.E.R.I., Inc. & Affiliates (nonprofit organizations), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered T.E.R.I., Inc. & Affiliates' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of T.E.R.I., Inc. & Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether T.E.R.I., Inc. & Affiliates' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kaku + Mersino, LLP

KAKU & MERSINO, LLP

December 19, 2016