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

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

INDEPENDENT AUDITORS' REPORT

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

June 30, 2014

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, 2014, 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, 2014, 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 November 20, 2014, 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

November 20, 2014

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, 2014

ASSETS

Cash and Cash Equivalents	$	305,189
Accounts Receivable		1,929,672
Grants Receivable		38,763
Contribution Receivable		895,718
Prepaid Expenses		100,933
Investments		1,026
Client Trust Accounts		61,573
Deposits		128,127
Construction in Progress		4,544,894
Property and Equipment, net		11,463,184
TOTAL ASSETS	$	19,469,079

LIABILITIES

Accounts Payable	$	2,067,143
Salaries and Benefits Payable		452,539
Accrued Expenses		246,600
Deferred Revenue		6,680
Line of Credit		300,000
Accrued Interest		81,963
Client Trust Accounts		61,573
Capital Lease		34,523
Notes Payable		2,461,605
TOTAL LIABILITIES		5,712,626

NET ASSETS

Unrestricted		12,785,475
Temporarily Restricted		970,978
TOTAL NET ASSETS		13,756,453
TOTAL LIABILITIES AND NET ASSETS	$	19,469,079

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, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUE and SUPPORT			
Program Service Fees			
Residential	$ 4,579,520		$ 4,579,520
Adult Day Programs	3,955,279		3,955,279
Non Public Schools	4,685,779		4,685,779
Respite	863,765		863,765
Rental Income	516,861		516,861
Transportation	474,525		474,525
Total Program Service Fees	15,075,729	-	15,075,729
Public Support			
Contributions	1,061,735	193,190	1,254,925
Total Public Support	1,061,735	193,190	1,254,925
Other Revenue			
Thrift Store Sales $283,088			
Cost of Sales (29,886)	253,202		253,202
Miscellaneous	562,115		562,115
Unrealized Gain on Investments	695		695
Total Other Revenue	816,012	-	816,012
Net assets released from restrictions	138,249	(138,249)	-
TOTAL SUPPORT and REVENUE	17,091,725	54,941	17,146,666
EXPENSES			
Program Services	14,562,784		14,562,784
Supporting Services			
Management and General	2,103,065		2,103,065
Fundraising	495,782		495,782
Total Supporting Services	2,598,847	-	2,598,847
TOTAL EXPENSES	17,161,631	-	17,161,631
INCREASE/(DECREASE) IN NET ASSETS	(69,906)	54,941	(14,965)
NET ASSETS, BEGINNING OF YEAR	12,855,381	916,037	13,771,418
NET ASSETS, END OF YEAR	$ 12,785,475	$ 970,978	$ 13,756,453

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, 2014

	Program Services						
	Residential	Adult Day Programs	Non Public Schools	Respite	Transportation	Potpourri Thrift Store	Equestrian
Salaries	$ 2,481,704	$ 2,247,014	$ 2,803,118	$ 489,380	$ 319,162	$ 115,378	$ 98,282
Payroll taxes	180,218	163,662	199,532	36,632	23,318	8,686	7,334
Health insurance/Wellness	92,649	192,425	248,946	13,805	4,153	1,242	7,964
Workers compensation	116,291	40,725	46,667	19,762	15,959	5,420	1,793
Client activities	26,409	6,490	1,299	7,589	-	-	-
Vocational service	-	30,647	3,527	-	-	-	-
Vehicle expense	-	-	-	-	370,907	-	-
Information Technology	13,299	28,622	22,524	972	17,841	4,153	4,515
Office supplies and expense	2,502	5,280	9,062	900	145	-	617
Advertising	2,040	2,032	1,527	716	447	3,384	269
Utilities	44,616	86,806	117,409	8,610	-	9,496	6,316
Interest	-	-	-	-	8,774	-	7,595
Dues and subscriptions	1,925	455	5,030	300	30	-	-
Insurance	691	1,835	2,762	44	46,541	2,393	4,386
Depreciation	82	3,223	14,035	-	156,513	-	134,981
Rent	192,150	241,118	223,268	13,665	2,250	24,750	-
Unreimbursed Services	26,785	1,881	242	350	-	346	85
Bank charges	-	71	-	-	-	5,358	-
Business promotion	-	-	-	-	-	-	-
Taxes and licenses	40,734	1,118	3,201	-	-	-	-
Seminars	1,014	4,581	117	107	150	-	75
Auto allowance and mileage	45,053	45,804	13,030	120,882	11,853	4,115	737
Food	223,190	-	-	-	-	-	-
Household supplies	101,245	27,533	7,893	-	203	713	193
Equipment rental	5,396	31,841	18,524	1,399	151	10,610	125
Outside services	73,939	52,513	187,417	1,875	950	7,409	10,324
Program supplies	24,348	109,139	35,118	2,656	433	3,645	19,413
Repairs and maintenance	4,654	40,744	54,450	2,994	318	5,199	3,158
Medi-Cal quality assurance fee	237,933	-	-	-	-	-	-
Medications	20,505	-	-	-	-	-	-
	$ 3,959,372	$ 3,365,559	$ 4,018,698	$ 722,638	$ 980,098	$ 212,297	$ 308,162
Percentage	23.1%	19.6%	23.4%	4.2%	5.7%	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, 2014

	Program Services			Supporting Service			
	IALQ	HUD Affiliates	Program Services Total	Management and General	Development	Supporting Service Total	Total
Salaries	$ 12,938	$ 178,502	$ 8,745,478	$ 1,078,565	$ 216,606	$ 1,295,171	$ 10,040,649
Payroll taxes	986	12,952	633,320	119,035	16,170	135,205	768,525
Health insurance/Wellness	806	6,630	568,620	36,585	6,836	43,421	612,041
Workers compensation	135	9,601	256,353	11,558	1,901	13,459	269,812
Client activities	-	-	41,787	-	-	-	41,787
Vocational service	-	-	34,174	-	-	-	34,174
Vehicle expense	-	-	370,907	-	-	-	370,907
Information Technology	167	13,060	105,153	84,583	8,920	93,503	198,656
Office supplies and expense	162	-	18,668	27,763	8,033	35,796	54,464
Advertising	1,525	-	11,940	4,745	625	5,370	17,310
Utilities	-	171,792	445,045	31,024	2,791	33,815	478,860
Interest	-	5,259	21,628	41,765	-	41,765	63,393
Dues and subscriptions	6,991	3,388	18,119	28,949	2,643	31,592	49,711
Insurance	-	25,660	84,312	39,287	-	39,287	123,599
Depreciation	-	287,602	596,436	371	-	371	596,807
Rent	180	-	697,381	52,902	5,426	58,328	755,709
Unreimbursed Services	-	-	29,689	144,188	-	144,188	173,877
Bank charges	-	110	5,539	24,010	5,815	29,825	35,364
Business promotion	-	-	-	110,984	13,007	123,991	123,991
Taxes and licenses	-	8,713	53,766	2,125	-	2,125	55,891
Seminars	609	286	6,939	12,188	4,382	16,570	23,509
Auto allowance and mileage	1,715	10,466	253,655	63,398	30,452	93,850	347,505
Food	-	-	223,190	-	-	-	223,190
Household supplies	706	14,326	152,812	17,630	3,476	21,106	173,918
Equipment rental	-	-	68,046	49,149	39,140	88,289	156,335
Outside services	5,014	134,323	473,764	85,278	108,191	193,469	667,233
Program supplies	709	-	195,461	25,697	20,772	46,469	241,930
Repairs and maintenance	-	80,647	192,164	11,286	596	11,882	204,046
Medi-Cal quality assurance fee	-	-	237,933	-	-	-	237,933
Medications	-	-	20,505	-	-	-	20,505
	$ 32,643	$ 963,317	$ 14,562,784	$ 2,103,065	$ 495,782	$ 2,598,847	$ 17,161,631
Percentage	0.2%	5.6%	84.9%	12.3%	2.9%	15.1%	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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$	(14,965)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation		596,807
Unrealized (Gain)/Loss on Investments		(695)
(Increase) Decrease in Assets:		
Accounts Receivable		(281,721)
Grants Receivable		17,523
Contribution Receivable		(134,849)
Prepaid Expenses and Other Assets		(31,822)
Deposits		(250)
Increase (Decrease) in Liabilities:		
Accounts Payable		796,365
Salaries and Benefits Payable		57,943
Accrued Expenses		81,022
Deferred Revenue		(250)
Accrued Interest		7,359
NET CASH PROVIDED BY OPERATING ACTIVITIES		1,092,467
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and Equipment		(84,048)
Increase Construction in Progress		(489,122)
Change in Investments		5,716
NET CASH USED BY INVESTING ACTIVITIES		(567,454)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Line of Credit		2,815,000
Paydown on Line of Credit		(3,165,000)
Payments on Capital Lease		(9,007)
Payments on Debt		(407,328)
NET CASH USED BY FINANCING ACTIVITIES		(766,335)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(241,322)
BEGINNING CASH AND CASH EQUIVALENTS		546,511
ENDING CASH AND CASH EQUIVALENTS	$	305,189

Supplemental Disclosures of Cash Flow Information:

Cash paid during year for interest $56,033.

Noncash Financing: - Debt of $228,966 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, Wendell Starling Home, McNealy Housing Corporation, Susan Parham Housing Corporation, and Joseph Michalowski Housing Corporation are also audited separately as single audits in accordance with OMB Circular A-133 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 $100,000 for allowance for doubtful accounts which is included in accounts 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 November 20, 2014, 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, 2014:

	Amount
Cash	$ 193,195
Replacement Reserves	111,994
Total	$ 305,189

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.

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	$ 895,718
One to five years	0
More than five years	0
Total	$ 895,718

Contributions receivable at June 30, 2014, 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, 2014 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
Investment in Equity Securities	$ 1,026	$ 1,026

Note 6 – Construction in Progress

The following is a summary of Construction in Progress at June 30, 2014. Interest cost of $68,353 were capitalized during the fiscal year:

	Amount
Charles R. Cono Campus of Life	$ 4,544,894
Total	$ 4,544,894

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 $61,573 at June 30, 2014, 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, 2014:

	Amount
Residences	$ 6,294,724
Deer Springs Campus	3,180,201
Land	2,160,395
Leasehold Improvements	1,975,870
Vehicles	777,855
Equipment	201,502
Total	14,590,547
Less Accumulated Depreciation	(3,127,363)
Property and Equipment, Net	$ 11,463,184

Depreciation expense was $596,807 for the year ended June 30, 2014.

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 3.5% and has a balance of $300,000 as of June 30, 2014. The line of credit matures on January 15, 2015, which management expects to renew.

Note 10 – Notes Payable

Notes payable consist of the following at June 30, 2014:

	Amount
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.	$ 1,370,236
Promissory note payable to a financial institution in monthly payments of principal and interest of $6,641. Interest accrues monthly at 5.15%. The note is due August 3, 2015, and is secured by accounts receivable, equipment and general intangibles.	89,939
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
Ten notes payable in monthly installments totaling $6,683, including interest at rates approximately 5 to 7%, with final payments due February 2019. The loans are collateralized by vehicles.	133,409
Eleven notes payable in monthly installments totaling $5,271, including interest at rates approximately 0 to 6%, with final payments due June 2019. The loans are collateralized by vehicles.	235,877
Total	$ 2,461,605

Note 10 – Notes Payable (continued)

Current portion of the Line of Credit and Notes Payable is $648,270 for year ending June 30, 2014.

The following is a schedule of future minimum principal payments as of June 30, 2014:

Year Ending June 30:	Amount
2015	$ 348,270
2016	278,070
2017	241,905
2018	238,230
2019	217,602
Thereafter	1,137,528
	$ 2,461,605

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, 2014 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. Promises to Give include a $40,000 pledge from a key employee.

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 $912,043 for the year ended June 30, 2014.

Future minimum lease payments under operating lease are as follows:

Year Ending June 30:	
2015	$ 386,806
2016	226,372
2017	53,442
2018	51,941
2019	33,327

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 $11,940 as of June 30, 2014. 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:	
2015	$ 9,006
2016	9,006
2017	9,006
2018	7,505
2019	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

See Independent Auditors' Report

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.

Litigation

TERI, Inc. is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The Company defends itself vigorously against any such claims. Although the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

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, 2014, 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 November 20, 2014.

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.

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

November 20, 2014

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