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

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

INDEPENDENT AUDITORS' REPORT

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

June 30, 2015

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, 2015, 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, 2015, 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 January 26, 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

January 26, 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

ASSETS

Cash	$	547,472
Accounts Receivable		1,843,884
Grants Receivable		10,705
Contribution Receivable		837,081
Prepaid Expenses		68,004
Investments		8,522
Client Trust Accounts		42,282
Deposits		143,684
Construction in Progress		5,248,901
Property and Equipment, net		10,980,873
TOTAL ASSETS	$	19,731,408

LIABILITIES

Accounts Payable	$	1,121,432
Salaries and Benefits Payable		478,086
Accrued Expenses		249,692
Deferred Revenue		6,751
Line of Credit		1,000,000
Accrued Interest		89,323
Client Trust Accounts		42,282
Capital Lease		25,517
Notes Payable		2,849,003
TOTAL LIABILITIES		5,862,086

NET ASSETS

Unrestricted		12,747,726
Temporarily Restricted		1,121,596
TOTAL NET ASSETS		13,869,322
TOTAL LIABILITIES AND NET ASSETS	$	19,731,408

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, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUE and SUPPORT			
Program Service Fees			
Residential	$ 4,935,468		$ 4,935,468
Adult Day Programs	4,043,804		4,043,804
Non Public Schools	4,466,164		4,466,164
Respite	941,073		941,073
Rental Income	561,555		561,555
Transportation	486,489		486,489
Total Program Service Fees	15,434,553	-	15,434,553
Public Support			
Contributions	1,045,993	260,000	1,305,993
Grants	187,022		187,022
Total Public Support	1,233,015	260,000	1,493,015
Other Revenue			
Thrift Store Sales $269,835			
Cost of Sales (28,715)	241,120		241,120
Miscellaneous	791,175		791,175
Unrealized Loss on Investments	(3,391)		(3,391)
Total Other Revenue	1,028,904	-	1,028,904
Net assets released from restrictions	109,382	(109,382)	-
TOTAL SUPPORT and REVENUE	17,805,854	150,618	17,956,472
EXPENSES			
Program Services	15,215,358		15,215,358
Supporting Services			
Management and General	2,161,299		2,161,299
Development	462,003		462,003
Total Supporting Services	2,623,302	-	2,623,302
TOTAL EXPENSES	17,838,660	-	17,838,660
INCREASE/(DECREASE) IN NET ASSETS	(32,806)	150,618	117,812
NET ASSETS, BEGINNING OF YEAR	12,780,532	970,978	13,751,510
NET ASSETS, END OF YEAR	$ 12,747,726	$ 1,121,596	$ 13,869,322

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, 2015

	Program Services						
	Residential	Adult Day Programs	Non Public Schools	Respite	Transportation	Potpourri Thrift Store	Equestrian
Salaries	$ 2,675,051	$ 2,421,635	$ 2,687,945	$ 495,751	$ 326,063	$ 104,141	$ 93,428
Payroll taxes	195,034	175,586	193,866	37,183	24,245	7,465	7,005
Health insurance/Wellness	115,993	242,058	293,726	14,847	5,280	-	8,756
Workers compensation	135,418	42,869	46,180	21,263	17,390	4,995	1,762
Client activities	26,718	5,957	1,079	7,140	-	-	-
Vocational service	-	35,195	3,550	-	-	-	-
Vehicle expense	-	-	-	-	327,029	-	-
Information Technology	15,030	32,600	23,449	1,502	23,912	2,379	3,902
Office supplies and expense	1,946	6,237	12,012	617	75	281	496
Advertising	7,446	5,619	2,715	2,829	200	3,944	344
Utilities	52,291	94,731	124,225	8,556	-	13,024	22,488
Interest	-	-	-	-	9,217	-	6,802
Dues and subscriptions	1,789	791	8,030	300	30	-	-
Insurance	780	2,401	2,630	38	49,929	4,221	5,038
Depreciation	12	3,079	8,618	-	172,999	-	134,558
Rent	197,897	246,436	207,257	16,211	2,250	27,000	-
Unreimbursed Services	23,575	50,919	23,561	43,047	2,921	46	-
Bank charges	-	-	-	-	-	4,372	-
Business promotion	-	-	-	-	-	-	-
Taxes and licenses	41,015	972	4,175	-	45	-	-
Seminars	145	5,435	244	65	-	-	595
Auto allowance and mileage	44,109	46,805	14,937	107,570	8,313	3,144	999
Food	245,616	-	-	-	-	-	-
Household supplies	98,557	33,234	4,979	577	2,555	1,560	492
Equipment rental	4,366	30,929	20,649	815	-	13,329	-
Outside services	95,828	70,301	185,924	1,327	872	8,489	16,150
Program supplies	25,471	132,816	35,789	2,556	524	5,007	22,797
Repairs and maintenance	10,634	30,079	36,024	2,273	83	1,646	4,137
Medi-Cal quality assurance fee	254,337	-	-	-	-	-	-
Medications	23,896	-	-	-	-	-	-
	$ 4,292,954	$ 3,716,684	$ 3,941,564	$ 764,467	$ 973,932	$ 205,043	$ 329,749
Percentage	24.1%	20.8%	22.1%	4.3%	5.5%	1.1%	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, 2015

	Program Services			Supporting Service			
	IALQ	HUD Affiliates	Program Services Total	Management and General	Development	Supporting Service Total	Total
Salaries	$ 12,914	$ 192,957	$ 9,009,885	$ 1,090,449	$ 135,870	$ 1,226,319	$ 10,236,204
Payroll taxes	986	13,956	655,326	143,379	10,846	154,225	809,551
Health insurance/Wellness	446	8,739	689,845	116,537	12,311	128,848	818,693
Workers compensation	155	10,322	280,354	13,022	1,351	14,373	294,727
Client activities	-	-	40,894	-	-	-	40,894
						-	-
Vocational service	-	-	38,745	-	-	-	38,745
Vehicle expense	-	-	327,029	-	-	-	327,029
Information Technology	531	13,539	116,844	103,091	11,998	115,089	231,933
Office supplies and expense	-	24	21,688	28,479	4,733	33,212	54,900
Advertising	400	-	23,497	5,726	4,456	10,182	33,679
						-	-
Utilities	-	179,972	495,287	33,797	3,036	36,833	532,120
Interest	-	5,259	21,278	56,076	-	56,076	77,354
Dues and subscriptions	2,844	3,205	16,989	53,338	3,180	56,518	73,507
Insurance	-	28,987	94,024	40,658	-	40,658	134,682
Depreciation	-	286,735	606,001	-	-	-	606,001
						-	-
Rent	330	-	697,381	53,425	5,479	58,904	756,285
Unreimbursed Services	-	-	144,069	132,500	-	132,500	276,569
Bank charges	-	-	4,372	12,979	8,236	21,215	25,587
Business promotion	-	-	-	30,323	2,391	32,714	32,714
Taxes and licenses	-	7,844	54,051	2,364	25	2,389	56,440
						-	-
Seminars	99	-	6,583	7,889	1,465	9,354	15,937
Auto allowance and mileage	519	12,913	239,309	49,114	12,981	62,095	301,404
Food	-	-	245,616	-	11,388	11,388	257,004
Household supplies	344	17,203	159,501	15,009	994	16,003	175,504
Equipment rental	-	1,384	71,472	40,230	31,068	71,298	142,770
						-	-
Outside services	610	134,738	514,239	84,768	158,715	243,483	757,722
Program supplies	2,385	98	227,443	33,764	40,900	74,664	302,107
Repairs and maintenance	15	50,512	135,403	14,382	580	14,962	150,365
Medi-Cal quality assurance fee	-	-	254,337	-	-	-	254,337
Medications	-	-	23,896	-	-	-	23,896
	$ 22,578	$ 968,387	$ 15,215,358	$ 2,161,299	$ 462,003	$ 2,623,302	$ 17,838,660
	0.1%	5.4%	85.3%	12.1%	2.6%	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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$	117,812
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation		606,001
Unrealized (Gain)/Loss on Investments		3,391
(Increase) Decrease in Assets:		
Accounts Receivable		85,788
Grants Receivable		28,058
Contribution Receivable		58,637
Prepaid Expenses and Other Assets		32,929
Deposits		(15,557)
Increase (Decrease) in Liabilities:		
Accounts Payable		(950,652)
Salaries and Benefits Payable		25,547
Accrued Expenses		3,092
Deferred Revenue		71
Accrued Interest		7,360
NET CASH PROVIDED BY OPERATING ACTIVITIES		2,477
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and Equipment		(8,002)
Increase Construction in Progress		(704,007)
Change in Investments		(10,887)
NET CASH USED BY INVESTING ACTIVITIES		(722,896)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Line of Credit		2,600,000
Paydown on Line of Credit		(1,900,000)
Payments on Capital Lease		(9,006)
Proceeds on Debt		758,647
Payments on Debt		(486,939)
NET CASH PROVIDED BY FINANCING ACTIVITIES		962,702
NET INCREASE IN CASH AND CASH EQUIVALENTS		242,283
BEGINNING CASH AND CASH EQUIVALENTS		305,189
ENDING CASH AND CASH EQUIVALENTS	$	547,472

Supplemental Disclosures of Cash Flow Information:

Cash paid during year for interest $69,994.

Noncash Financing: - Debt of $115,690 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 January 26, 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, 2015:

	Amount
Cash	$ 417,916
Replacement Reserves	129,556
Total	$ 547,472

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	$ 837,081
One to five years	0
More than five years	0
Total	$ 837,081

Contributions receivable at June 30, 2015, 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, 2015 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
Investment in Equity Securities	$ 8,522	$ 8,522

Note 6 – Construction in Progress

The following is a summary of Construction in Progress at June 30, 2015. Interest cost of $61,220 were capitalized during the fiscal year:

	Amount
Charles R. Cono Campus of Life	$ 5,248,901
Total	$ 5,248,901

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 $42,282 at June 30, 2015, 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, 2015:

	Amount
Residences	$ 6,294,724
Deer Springs Campus	3,180,201
Land	2,160,395
Leasehold Improvements	1,983,872
Vehicles	893,546
Equipment	201,500
Total	14,714,238
Less Accumulated Depreciation	(3,733,365)
Property and Equipment, Net	$ 10,980,873

Depreciation expense was $606,001 for the year ended June 30, 2015.

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 $1,000,000 as of June 30, 2015. The line of credit matures on March 15, 2016, which management expects to renew.

Note 10 – Notes Payable

Notes payable consist of the following at June 30, 2015:

	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.	$ 1,214,487
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.	655,674
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
Twenty one 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.	346,698
Total	$ 2,849,003

Note 10 – Notes Payable (continued)

Current portion of the Line of Credit and Notes Payable is $1,467,298 for year ending June 30, 2015.

The following is a schedule of future minimum principal payments as of June 30, 2015:

Year Ending June 30:	Amount
2016	$ 467,298
2017	452,614
2018	457,851
2019	322,349
2020	214,521
Thereafter	934,370
	$ 2,849,003

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, 2015 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 $899,056 for the year ended June 30, 2015.

Future minimum lease payments under operating lease are as follows:

Year Ending June 30:	
2016	$ 430,798
2017	270,902
2018	51,941
2019	33,327
2020	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 $18,764 as of June 30, 2015. 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:	
2016	$ 9,006
2017	9,006
2018	7,506
2019	0
2020	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, 2015, 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 January 26, 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

January 26, 2016

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