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

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

INDEPENDENT AUDITORS' REPORT

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

June 30, 2019

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, 2019, 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, 2019, 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 March 30, 2020, 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

March 30, 2020

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T.E.R.I., INC. & AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS	
Cash	$ 1,206,216
Accounts Receivable	2,018,032
Grants Receivable	49,469
Contributions Receivable	1,022,110
Prepaid Expenses	117,500
Investments	7,933
Client Trust Accounts	61,744
Deposits	212,218
Construction in Progress	7,645,793
Property and Equipment, net	10,200,770
TOTAL ASSETS	$ 22,541,785
LIABILITIES	
Accounts Payable	$ 353,712
Salaries and Benefits Payable	917,600
Accrued Expenses	747,876
Line of Credit	1,400,000
Accrued Interest	118,761
Client Trust Accounts	61,744
Notes Payable	2,223,800
TOTAL LIABILITIES	5,823,493
NET ASSETS	
Without Donor Restrictions	15,643,292
With Donor Restrictions	1,075,000
TOTAL NET ASSETS	16,718,292
TOTAL LIABILITIES AND NET ASSETS	$ 22,541,785

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE and SUPPORT			
Program Service Fees			
Residential	$ 6,105,425		$ 6,105,425
Adult Day Programs	6,243,973		6,243,973
Non Public Schools	4,089,016		4,089,016
Respite	1,188,455		1,188,455
Rental Income	558,094		558,094
Transportation	568,061		568,061
Total Program Service Fees	18,753,024	-	18,753,024
Public Support			
Contributions	2,349,233	600,000	2,949,233
Grants	265,992		265,992
Total Public Support	2,615,225	600,000	3,215,225
Other Revenue			
Thrift Store Sales $271,472			
Cost of Sales (34,676)	236,796		236,796
Miscellaneous	939,537		939,537
Loss on Investments	(443)		(443)
Total Other Revenue	1,175,890	-	1,175,890
Net assets released from restrictions	375,000	(375,000)	-
TOTAL SUPPORT and REVENUE	22,919,139	225,000	23,144,139
EXPENSES			
Program Services	19,260,939		19,260,939
Supporting Services			
Management and General	3,207,823		3,207,823
Development	434,058		434,058
Total Supporting Services	3,641,881	-	3,641,881
TOTAL EXPENSES	22,902,820	-	22,902,820
INCREASE IN NET ASSETS	16,319	225,000	241,319
NET ASSETS, BEGINNING OF YEAR	15,626,973	850,000	16,476,973
NET ASSETS, END OF YEAR	$ 15,643,292	$ 1,075,000	$ 16,718,292

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, 2019

	Program Services						
	Residential	Adult Day Programs	Non Public Schools	Respite	Transportation	TERI Inspired Resale	Equestrian
Salaries	$ 3,650,363	$ 2,875,695	$ 2,444,392	$ 676,594	$ 423,126	$ 137,642	$ 142,830
Payroll taxes	287,733	208,444	178,775	51,481	31,802	10,097	10,257
Health insurance/Wellness	200,238	361,671	282,549	16,022	20,508	7,780	15,703
Workers compensation	199,394	51,119	45,787	33,480	20,771	7,098	2,611
Client activities	51,192	4,596	1,370	11,283	-	-	-
Vocational service	8,432	41,223	518	-	-	-	-
Vehicle expense	-	-	-	-	450,887	-	-
Information Technology	23,843	22,178	21,891	12,889	33,918	5,854	5,188
Office supplies and expense	5,679	9,070	4,974	103	414	3,642	402
Advertising	12,850	15,880	5,626	4,347	3,807	6,087	641
Utilities	90,457	99,459	113,969	8,821	-	13,211	33,473
Interest	2,118	-	-	-	342	-	3,185
Dues and subscriptions	2,607	813	6,120	333	30	1,430	135
Insurance	814	2,463	2,331	37	-	1,728	5,132
Depreciation	2,983	5,458	1,478	-	248,383	7,292	127,231
Rent	245,609	291,681	203,631	21,878	3,123	64,308	-
Unreimbursed Services	238	273	-	31	-	112	-
Bank charges	130	-	-	-	-	5,972	-
Business promotion	-	-	-	-	-	1,741	-
Taxes and licenses	82,054	757	5,645	-	30	-	89
Seminars	171	3,099	50	-	-	-	410
Auto allowance and mileage	75,401	33,987	28,618	76,029	2,945	1,557	3,070
Food	271,614	9,401	7,076	351	19	502	333
Household supplies	139,899	17,706	5,149	56	29	2,361	16,704
Equipment rental	5,310	16,239	14,276	470	-	5,353	1,717
Outside services	144,550	34,519	138,844	2,411	3,831	2,534	16,235
Program supplies	33,605	77,326	40,185	4,090	1,644	11,552	33,336
Cost of goods sold	-	54,346	-	-	-	-	-
Repairs and maintenance	5,552	26,017	14,408	890	46	795	5,273
Medi-Cal quality assurance fee	285,900	-	-	-	-	-	-
Medications	41,057	-	-	-	-	-	-
	$ 5,869,793	$ 4,263,420	$ 3,567,662	$ 921,596	$ 1,245,655	$ 298,648	$ 423,955
Percentage	25.6%	18.6%	15.6%	4.0%	5.4%	1.3%	1.9%

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, 2019

	Program Services			Supporting Services			
	Therapy Services	HUD Affiliates	Program Services Total	Management and General	Development	Supporting Services Total	Total
Salaries	$ 1,142,742	$ 267,568	$ 11,760,952	$ 1,269,933	$ 226,928	$ 1,496,861	$ 13,257,813
Payroll taxes	83,959	182	862,730	121,296	16,272	137,568	1,000,298
Health insurance/Wellness	72,929	26,781	1,004,181	3,547	24,892	28,439	1,032,620
Workers compensation	7,339	-	367,599	63,386	2,104	65,490	433,089
Client activities	175	-	68,616	-	-	-	68,616
Vocational service	-	-	50,173	-	-	-	50,173
Vehicle expense	-	-	450,887	-	-	-	450,887
Information Technology	40,836	16,014	182,611	118,160	16,656	134,816	317,427
Office supplies and expense	3,746	-	28,030	32,166	12,247	44,413	72,443
Advertising	10,854	-	60,092	7,340	3,677	11,017	71,109
Utilities	15,131	178,605	553,126	43,833	2,615	46,448	599,574
Interest	6,381	23,496	35,522	202,473	40	202,513	238,035
Dues and subscriptions	1,978	3,941	17,387	62,081	4,009	66,090	83,477
Insurance	1,458	28,642	42,605	63,753	-	63,753	106,358
Depreciation	-	298,776	691,601	42,177	-	42,177	733,778
Rent	107,035	-	937,265	57,548	5,902	63,450	1,000,715
Unreimbursed Services	927	-	1,581	602,887	-	602,887	604,468
Bank charges	3,597	1,855	11,554	25,087	8,329	33,416	44,970
Business promotion	1,190	-	2,931	33,425	9,784	43,209	46,140
Taxes and licenses	313	8,158	97,046	4,572	51	4,623	101,669
Seminars	2,245	313	6,288	6,664	6,453	13,117	19,405
Auto allowance and mileage	25,715	-	247,322	49,449	5,641	55,090	302,412
Food	662	-	289,958	27,727	5,645	33,372	323,330
Household supplies	2,159	48,322	232,385	68,264	22,072	90,336	322,721
Equipment rental	5,399	164	48,928	18,397	5,769	24,166	73,094
Outside services	36,004	128,795	507,723	229,992	38,581	268,573	776,296
Program supplies	8,622	-	210,360	38,898	16,377	55,275	265,635
Cost of goods sold	-	-	54,346	-	-	-	54,346
Repairs and maintenance	1,766	55,436	110,183	14,768	14	14,782	124,965
Medi-Cal quality assurance fee	-	-	285,900	-	-	-	285,900
Medications	-	-	41,057	-	-	-	41,057
	$ 1,583,162	$ 1,087,048	$ 19,260,939	$ 3,207,823	$ 434,058	$ 3,641,881	$ 22,902,820
Percentage	6.9%	4.7%	84.1%	14.0%	1.9%	15.9%	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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$	241,319
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation		733,776
Unrealized (Gain)/Loss on Investments		443
(Increase) Decrease in Assets:		
Accounts Receivable		(67,780)
Grants Receivable		499,415
Contribution Receivable		860,646
Prepaid Expenses and Other Assets		23,987
Deposits		(54,061)
Increase (Decrease) in Liabilities:		
Accounts Payable		(345,816)
Salaries and Benefits Payable		109,878
Accrued Expenses		159,856
Accrued Interest		7,360
NET CASH PROVIDED BY OPERATING ACTIVITIES		2,169,023
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property and Equipment		(201,973)
Increase Construction in Progress		(1,845,505)
Change in Investments		165
NET CASH USED BY INVESTING ACTIVITIES		(2,047,313)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Line of Credit		1,860,000
Paydown on Line of Credit		(1,210,000)
Payments on Debt		(435,381)
NET CASH PROVIDED BY FINANCING ACTIVITIES		214,619
NET INCREASE IN CASH AND CASH EQUIVALENTS		336,329
BEGINNING CASH AND CASH EQUIVALENTS		869,887
ENDING CASH AND CASH EQUIVALENTS	$	1,206,216

Supplemental Disclosures of Cash Flow Information:
Cash paid during year for interest $127,863.
Noncash Financing: Debt of $261,569 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, and Resource Institute) (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 therapy programs including speech, applied behavior analysis, and equestrian, 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. Insurance carriers, individuals, other agencies, and school districts partially fund the therapy 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)

Financial Statement Presentation

The Agency reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- Net Assets without Donor Restrictions – These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

- Net Assets with Donor Restrictions – These net assets generally result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted.

The accounts of the organization are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups.

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.

The financial statements have been prepared using the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

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.

.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 $170,674 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, when value can be established, 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 March 30, 2020, 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, 2019:

	Amount
Cash	$ 1,095,580
Replacement Reserves	110,636
Total	$ 1,206,216

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, 2019, total $2,109,686.

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	$ 768,760
One to five years	253,350
More than five years	0
Total	$ 1,022,110

Contributions receivable at June 30, 2019, 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, 2019 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
Investment in Equity Securities	$ 7,933	$ 7,933

Note 6 – Construction in Progress

The following is a summary of Construction in Progress at June 30, 2019. Interest cost of $28,665 were capitalized during the fiscal year:

	Amount
Charles R. Cono Campus of Life	$ 7,645,793
Total	$ 7,645,793

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 $61,744 at June 30, 2019, 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, 2019:

	Amount
Residences	$ 6,444,724
Deer Springs Campus	3,180,201
Land	2,010,395
Leasehold Improvements	2,662,985
Vehicles	1,860,638
Equipment & Furniture	296,132
Total	16,455,075
Less Accumulated Depreciation	(6,254,305)
Property and Equipment, Net	$ 10,200,770

Depreciation expense was $733,776 for the year ended June 30, 2019.

Note 9 – Line of Credit

The Agency has a $1,600,000 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 5.25% and has a balance of $1,400,000 as of June 30, 2019. Management expects the line of credit to be renewed by the maturity date June 15, 2020.

Note 10 – Notes Payable

Notes payable consist of the following at June 30, 2019:

	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.	$ 503,586
Promissory note payable to State of California dated July 2019. Monthly payments of $3,500 for 60 months. The note does not bear any interest. The note is due July 2024. The note is secured by a deed of trust.	470,351
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 to a financial institution, payable in monthly installments totaling approximately $6,500 including interest at 5% per annum, until July 2024. The notes are secured by solar power generation systems on group homes.	348,739
Thirty two notes payable in monthly payments of interest and principal totaling approximately $16,295 including interest at rates ranging from 0 to 5.75%. The notes are generally 60 months and are collateralized by vehicles.	618,980
Total	$ 2,223,800

Note 10 – Notes Payable (continued)

Current portion of the Line of Credit and Notes Payable is $496,724 for year ending June 30, 2019.

The following is a schedule of future minimum principal payments as of June 30, 2019:

Year Ending June 30:	Amount
2020	$ 1,896,724
2021	495,338
2022	329,279
2023	194,473
2024	158,011
Thereafter	549,975
	$ 3,623,800

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, 2019 was $44,436. TERI has started the process to purchase the home and has paid a $100,000 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 $1,073,646 for the year ended June 30, 2019.

Future minimum lease payments under operating lease are as follows:

Year Ending June 30:	
2020	$ 368,432
2021	147,041
2022	93,888
2023	92,222
2024	44,400

Note 12 – Commitments and Contingencies (continued)

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 included in 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.

Note 13 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects TERI, Inc.'s & Affiliates' financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations.

Financial assets at year-end	
Cash	$ 1,206,216
Accounts Receivable	2,018,032
Grants Receivable	49,469
Contribution Receivable	1,022,110
Investments	7,933
Client Trust Accounts	61,744
Total Financial Assets	$ 4,365,504
Less those unavailable for general expenditures within one year, due to:	
Accounts Payable and Accrued Expenses	(353,712)
Salaries and Benefits Payable	(917,600)
Accrued Expenses	(747,876)
Contribution Receivable - donor restricted	(1,075,000)
Replacement Reserves - restricted use	(110,636)
Client Trust Accounts – restricted use	(61,744)
Current portion long term debt	(1,896,724)
Financial assets available to meet cash needs for general expenditures within one year	$ (797,788)

Agency operations require maintenance of financial assets, which consist of cash to meet normal operating expenses. The Agency also has a line of credit in place in the amount of $1,600,000 which it could draw upon in the event of any unanticipated liquidity needs.

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, 2019, 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 March 30, 2020.

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

March 30, 2020

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