

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

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

INDEPENDENT AUDITORS' REPORT

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

June 30, 2018

	<u>Page Number</u>
Independent Auditors' Report	1-2
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5-6
Consolidated Statement of Cash Flows	7
Notes to the Consolidated Financial Statements	8-18
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20

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, 2018, 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.

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, 2018, 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 29, 2019, 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 29, 2019

T.E.R.I., INC. & AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

Cash	\$ 869,887
Accounts Receivable	1,950,252
Grants Receivable	548,884
Contributions Receivable	1,882,756
Prepaid Expenses	141,487
Investments	8,541
Client Trust Accounts	67,959
Deposits	158,157
Construction in Progress	5,800,288
Property and Equipment, net	<u>10,471,004</u>
TOTAL ASSETS	<u><u>\$ 21,899,215</u></u>

LIABILITIES

Accounts Payable	\$ 699,528
Salaries and Benefits Payable	807,722
Accrued Expenses	588,020
Line of Credit	750,000
Accrued Interest	111,401
Client Trust Accounts	67,959
Notes Payable	<u>2,397,612</u>
TOTAL LIABILITIES	<u>5,422,242</u>

NET ASSETS

Unrestricted	12,546,170
Temporarily Restricted	<u>3,930,803</u>
TOTAL NET ASSETS	<u>16,476,973</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 21,899,215</u></u>

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, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUE and SUPPORT			
Program Service Fees			
Residential	\$ 5,958,408		\$ 5,958,408
Adult Day Programs	5,660,743		5,660,743
Non Public Schools	4,142,491		4,142,491
Respite	1,145,705		1,145,705
Rental Income	578,563		578,563
Transportation	566,186		566,186
Total Program Service Fees	<u>18,052,096</u>	<u>-</u>	<u>18,052,096</u>
Public Support			
Contributions	1,684,898	2,083,199	3,768,097
Grants	291,947		291,947
Total Public Support	<u>1,976,845</u>	<u>2,083,199</u>	<u>4,060,044</u>
Other Revenue			
Thrift Store Sales \$305,160			
Cost of Sales <u>(31,635)</u>	273,525		273,525
Miscellaneous	684,301		684,301
Gain on Investments	247		247
Total Other Revenue	<u>958,073</u>	<u>-</u>	<u>958,073</u>
Net assets released from restrictions	-	-	-
TOTAL SUPPORT and REVENUE	<u>20,987,014</u>	<u>2,083,199</u>	<u>23,070,213</u>
EXPENSES			
Program Services	18,230,934		18,230,934
Supporting Services			
Management and General	2,347,487		2,347,487
Development	596,285		596,285
Total Supporting Services	<u>2,943,772</u>	<u>-</u>	<u>2,943,772</u>
TOTAL EXPENSES	<u>21,174,706</u>	<u>-</u>	<u>21,174,706</u>
INCREASE IN NET ASSETS	(187,692)	2,083,199	1,895,507
NET ASSETS, BEGINNING OF YEAR	<u>12,733,862</u>	<u>1,847,604</u>	<u>14,581,466</u>
NET ASSETS, END OF YEAR	<u>\$ 12,546,170</u>	<u>\$ 3,930,803</u>	<u>\$ 16,476,973</u>

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, 2018

	Program Services						
	Residential	Adult Day Programs	Non Public Schools	Respite	Transportation	TERI Inspired Resale	Equestrian
Salaries	\$ 3,424,649	\$ 2,753,600	\$ 2,584,342	\$ 679,213	\$ 448,260	\$ 113,755	\$ 136,428
Payroll taxes	261,857	197,225	189,145	51,343	33,505	8,589	9,983
Health insurance/Wellness	92,046	260,117	196,674	6,344	19,033	-	6,344
Workers compensation	183,888	53,732	48,461	35,366	22,395	5,895	2,241
Client activities	35,124	5,118	3,089	13,163	-	-	-
Vocational service	-	39,138	597	-	-	-	-
Vehicle expense	-	-	-	-	426,938	-	-
Information Technology	15,108	22,880	25,955	10,142	19,490	6,857	6,162
Office supplies and expense	5,059	7,689	7,508	915	617	4,615	1,997
Advertising	10,802	11,191	6,322	5,684	4,805	6,649	105
Utilities	66,297	88,458	110,261	7,521	-	10,864	33,021
Interest	-	-	-	-	-	-	4,162
Dues and subscriptions	2,100	788	6,219	300	30	251	555
Insurance	704	2,131	1,187	32	-	1,495	4,440
Depreciation	2,983	5,663	1,478	-	219,875	7,292	127,489
Rent	208,810	261,701	205,010	18,673	2,688	73,149	-
Unreimbursed Services	21,857	957	1,050	12,190	-	-	420
Bank charges	-	-	-	-	-	5,035	-
Business promotion	-	-	-	-	-	828	-
Taxes and licenses	73,825	757	5,942	-	45	-	-
Seminars	169	1,889	185	85	-	-	1,052
Auto allowance and mileage	71,040	42,346	29,063	77,454	3,680	2,001	2,754
Food	257,771	9,893	2,100	101	-	447	752
Household supplies	112,692	20,546	14,259	170	3,171	5,368	8,950
Equipment rental	3,333	16,694	10,739	459	531	5,634	3,896
Outside services	70,650	54,352	154,775	1,784	594	6,649	23,439
Program supplies	41,825	65,883	31,072	3,606	797	7,498	34,084
Cost of goods sold	-	52,663	-	-	-	-	-
Repairs and maintenance	4,692	52,178	35,500	2,450	-	2,157	13,509
Medi-Cal quality assurance fee	276,653	-	-	-	-	-	-
Medications	36,868	-	-	-	-	-	-
	\$ 5,280,802	\$ 4,027,589	\$ 3,670,933	\$ 926,995	\$ 1,206,454	\$ 275,028	\$ 421,783
Percentage	24.9%	19.0%	17.3%	4.4%	5.7%	1.3%	2.0%

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, 2018

	Program Services			Supporting Services			Total
	Therapy Services	HUD Affiliates	Program Services Total	Management and General	Development	Supporting Services Total	
Salaries	\$ 878,842	\$ 234,069	\$ 11,253,158	\$ 1,076,506	\$ 248,719	\$ 1,325,225	\$ 12,578,383
Payroll taxes	64,025	199	815,871	135,248	16,769	152,017	967,888
Health insurance/Wellness	76,132	22,152	678,842	133,231	31,722	164,953	843,795
Workers compensation	6,741	-	358,719	14,133	2,097	16,230	374,949
Client activities	412	-	56,906	-	-	-	56,906
Vocational service	-	-	39,735	-	-	-	39,735
Vehicle expense	-	-	426,938	1,050	-	1,050	427,988
Information Technology	36,019	17,130	159,743	112,640	13,994	126,634	286,377
Office supplies and expense	5,463	-	33,863	25,424	12,376	37,800	71,663
Advertising	2,478	-	48,036	13,361	1,147	14,508	62,544
Utilities	5,064	175,811	497,297	43,007	2,431	45,438	542,735
Interest	-	24,353	28,515	61,325	-	61,325	89,840
Dues and subscriptions	2,550	3,944	16,737	61,483	7,543	69,026	85,763
Insurance	-	26,109	36,098	44,953	406	45,359	81,457
Depreciation	-	283,744	648,524	6,727	-	6,727	655,251
Rent	57,808	-	827,839	56,209	5,824	62,033	889,872
Unreimbursed Services	75,857	-	112,331	-	35,000	35,000	147,331
Bank charges	-	2,449	7,484	28,246	8,802	37,048	44,532
Business promotion	-	-	828	31,157	12,744	43,901	44,729
Taxes and licenses	381	7,654	88,604	2,919	-	2,919	91,523
Seminars	3,484	-	6,864	11,251	2,995	14,246	21,110
Auto allowance and mileage	19,756	-	248,094	49,048	4,653	53,701	301,795
Food	1,583	-	272,647	15,820	3,891	19,711	292,358
Household supplies	1,036	44,587	210,779	15,539	2,427	17,966	228,745
Equipment rental	3,725	-	45,011	14,428	8,185	22,613	67,624
Outside services	116,736	106,936	535,915	322,975	159,526	482,501	1,018,416
Program supplies	9,619	-	194,384	54,727	14,656	69,383	263,767
Cost of goods sold	-	-	52,663	-	-	-	52,663
Repairs and maintenance	537	103,965	214,988	15,985	378	16,363	231,351
Medi-Cal quality assurance fee	-	-	276,653	-	-	-	276,653
Medications	-	-	36,868	95	-	95	36,963
	<u>\$ 1,368,248</u>	<u>\$ 1,053,102</u>	<u>\$ 18,230,934</u>	<u>\$ 2,347,487</u>	<u>\$ 596,285</u>	<u>\$ 2,943,772</u>	<u>\$ 21,174,706</u>
Percentage	6.5%	5.0%	86.1%	11.1%	2.8%	13.9%	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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 1,895,507
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	655,252
Provision for Bad Debts	(111,326)
Unrealized (Gain)/Loss on Investments	(247)
(Increase) Decrease in Assets:	
Accounts Receivable	(223,055)
Grants Receivable	14,448
Contribution Receivable	(1,572,800)
Prepaid Expenses and Other Assets	(2,826)
Increase (Decrease) in Liabilities:	
Accounts Payable	(515,697)
Salaries and Benefits Payable	115,553
Accrued Expenses	(185,567)
Deferred Revenue	(68,667)
Accrued Interest	7,359
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,934</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of Property and Equipment	(128,132)
Increase Construction in Progress	(96,884)
Change in Investments	1,532
NET CASH USED BY INVESTING ACTIVITIES	<u>(223,484)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Advances on Line of Credit	925,000
Paydown on Line of Credit	(900,000)
Payments on Capital Lease	(7,505)
Payments on Debt	(624,876)
NET CASH USED BY FINANCING ACTIVITIES	<u>(607,381)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(822,931)
BEGINNING CASH AND CASH EQUIVALENTS	<u>1,692,818</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 869,887</u>

Supplemental Disclosures of Cash Flow Information:

Cash paid during year for interest \$97,898.

Noncash Financing: - Debt of \$234,900 for purchase of vehicles.

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

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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 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.

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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.

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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.

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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:

<u>Type of Asset</u>	<u>Estimated Useful Life</u>
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 29, 2019, the date the financial statements were available to be issued.

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Note 3 – Cash and Cash Equivalents

Cash and Cash Equivalents consist of the following at June 30, 2018:

	<u>Amount</u>
Cash	\$ 746,921
Replacement Reserves	122,966
Total	<u>\$ 869,887</u>

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, 2018, total \$2,157,013.

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.

	<u>Amount</u>
Amount of Receivable due:	
Less than one year	\$ 1,000
One to five years	1,881,456
More than five years	300
Total	<u>\$ 1,882,756</u>

Contributions receivable at June 30, 2018, 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.

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Note 5 – Investments – Fair Value Measurements

Fair values measured on a recurring basis at June 30, 2018 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Investment in Equity Securities	<u>\$ 8,541</u>	<u>\$ 8,541</u>

Note 6 – Construction in Progress

The following is a summary of Construction in Progress at June 30, 2018. Interest cost of \$37,454 were capitalized during the fiscal year:

	<u>Amount</u>
Charles R. Cono Campus of Life	\$ 5,800,288
	<hr/>
Total	<u>\$ 5,800,288</u>

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.

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Note 7 – Client Trust Accounts

Client trust funds of \$67,959 at June 30, 2018, 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, 2018:

	<u>Amount</u>
Residences	\$ 6,444,724
Deer Springs Campus	3,180,201
Land	2,010,395
Leasehold Improvements	2,574,914
Vehicles	1,674,871
Equipment	<u>203,948</u>
Total	16,089,053
Less Accumulated Depreciation	<u>(5,618,049)</u>
Property and Equipment, Net	<u>\$ 10,471,004</u>

Depreciation expense was \$655,252 for the year ended June 30, 2018.

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 \$750,000 plus accrued interest of \$4,341 as of June 30, 2018. The line of credit renewed with a maturity date March 15, 2020.

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 – Notes Payable

Notes payable consist of the following at June 30, 2018:

	<u>Amount</u>
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.	\$ 695,507
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.	84,989
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 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.	407,475
Twenty three notes payable in monthly payments of interest and principal totaling approximately \$11,000 including interest at rates ranging from 0 to 5.75%. The notes are generally 60 months and are collateralized by vehicles.	<u>577,497</u>
Total	<u>\$ 2,397,612</u>

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

Note 10 – Notes Payable (continued)

Current portion of the Line of Credit and Notes Payable is \$1,262,834 for year ending June 30, 2018.

The following is a schedule of future minimum principal payments as of June 30, 2018:

<u>Year Ending June 30:</u>	<u>Amount</u>
2019	\$ 512,834
2020	412,637
2021	409,911
2022	243,984
2023	106,106
Thereafter	<u>712,140</u>
	<u>\$ 2,397,612</u>

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, 2018 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 \$957,495 for the year ended June 30, 2018.

Future minimum lease payments under operating lease are as follows:

<u>Year Ending June 30:</u>	
2019	\$ 366,970
2020	368,432
2021	147,041
2022	93,888
2023	92,222

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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 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	<u>582,900</u>
Total	<u>\$ 4,863,793</u>

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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.

See Independent Auditors' Report

KAKU & MERSINO, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL 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, 2018, 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 29, 2019.

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

March 29, 2019