

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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2023

INDEPENDENT AUDITORS' REPORT

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

JUNE 30, 2022

	<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	8-19

KAKU & MERSINO, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of T.E.R.I., Inc. & Affiliates (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of T.E.R.I., Inc. & Affiliates and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about T.E.R.I., Inc. & Affiliates' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 T.E.R.I., Inc. & Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about T.E.R.I., Inc. & Affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Kaku + Mersino, LLP

KAKU & MERSINO, LLP

March 18, 2025

T.E.R.I., INC. & AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023

ASSETS

Cash	\$ 6,870,252
Accounts Receivable	8,026,246
Grants Receivable	21,275
Contributions Receivable	315,100
Prepaid Expenses	161,804
Investments	13,301
Client Trust Accounts	221,292
Deposits	183,989
Right of Use Asset	393,316
Construction in Progress	8,754,285
Property and Equipment, net	<u>18,425,089</u>
TOTAL ASSETS	<u>\$ 43,385,949</u>

LIABILITIES

Accounts Payable	\$ 2,573,238
Salaries and Benefits Payable	864,143
Accrued Expenses	2,884,803
Accrued Interest	143,902
Client Trust Accounts	221,292
Lease Liability	393,316
Notes Payable	<u>2,108,543</u>
TOTAL LIABILITIES	<u>9,189,237</u>

NET ASSETS

Without Donor Restrictions	33,283,085
With Donor Restrictions	<u>913,627</u>
TOTAL NET ASSETS	<u>34,196,712</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 43,385,949</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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE and SUPPORT			
Program Service Fees			
Residential	\$ 9,031,985		\$ 9,031,985
Adult Day Programs	5,877,772		5,877,772
Non Public Schools	3,860,991		3,860,991
Respite	856,892		856,892
Rental Income	743,320		743,320
Transportation	466,059		466,059
Total Program Service Fees	<u>20,837,019</u>	<u>-</u>	<u>20,837,019</u>
Public Support			
Contributions	1,166,328	\$ 55,000	1,221,328
Grants	278,000		278,000
Total Public Support	<u>1,444,328</u>	<u>55,000</u>	<u>1,499,328</u>
Other Revenue			
Sales	\$ 929,456		
Cost of Sales <u>(268,587)</u>	660,869		660,869
Miscellaneous	6,718,790		6,718,790
Gain on Investments	49,934		49,934
Total Other Revenue	<u>7,429,593</u>	<u>-</u>	<u>7,429,593</u>
Net assets released from restrictions	1,709,578	(1,709,578)	-
TOTAL SUPPORT and REVENUE	<u>31,420,518</u>	<u>(1,654,578)</u>	<u>29,765,940</u>
EXPENSES			
Program Services	20,332,374		20,332,374
Supporting Services			
Management and General	4,411,985		4,411,985
Development	689,136		689,136
Total Supporting Services	<u>5,101,121</u>	<u>-</u>	<u>5,101,121</u>
TOTAL EXPENSES	<u>25,433,495</u>	<u>-</u>	<u>25,433,495</u>
INCREASE/(DECREASE) IN NET ASSETS	5,987,023	(1,654,578)	4,332,445
NET ASSETS, BEGINNING OF YEAR	<u>27,296,062</u>	<u>2,568,205</u>	<u>29,864,267</u>
NET ASSETS, END OF YEAR	<u>\$ 33,283,085</u>	<u>\$ 913,627</u>	<u>\$ 34,196,712</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, 2023

	Program Services						TERI	
	Residential	Adult Day Programs	Non Public Schools	Respite	Transportation	TERI Inspired Resale	Vocational Center	Equestrian
Salaries	\$ 4,771,270	\$ 2,628,370	\$ 2,003,830	\$ 555,951	\$ 385,968	\$ 105,888	\$ 314,722	\$ 130,239
Payroll taxes	352,024	194,156	146,699	41,738	28,664	7,026	26,771	9,540
Health insurance/Wellness	170,435	249,763	150,093	13,939	15,121	(1,466)	4,962	9,915
Workers compensation	263,624	53,641	34,325	31,879	23,665	3,867	14,545	2,931
Client activities	49,840	1,029	517	5,142	-	-	-	-
Vocational service	-	18,540	1,017	8	-	-	-	-
Vehicle expense	-	178	-	-	461,051	2,847	147	1,398
Information Technology	26,986	58,982	31,784	9,322	39,310	5,984	21,861	4,772
Office supplies	4,675	7,460	1,288	199	610	596	11,457	246
Advertising	9,693	10,289	4,724	3,499	1,209	2,051	9,729	332
Utilities	35,069	138,045	118,922	2,159	643	15,747	72,454	35,949
Interest	473	-	-	-	-	-	-	2,686
Dues and subscriptions	3,743	2,352	5,725	1,083	666	403	2,559	754
Insurance	1,053	4,713	2,577	41	1,836	3,336	14,115	27,032
Depreciation	2,983	39,353	32,040	-	178,051	-	268,465	127,208
Rent	208,780	356,262	171,480	3,509	2,878	61,581	-	-
Unreimbursed Services	7,638	-	-	240	-	-	-	-
Bank charges	-	-	-	-	65	7,589	12,592	-
Business promotion	12	29	110	57	69	114	7,077	-
Taxes and licenses	133,896	875	5,988	2	9	-	3,010	-
Seminars	7,635	5,189	2,272	-	684	-	1,474	1,246
Auto allowance & mileage	63,352	20,202	19,799	53,185	307	236	671	959
Food	426,537	3,192	1,767	384	326	-	2,361	157
Household supplies	161,569	9,520	6,410	-	4,911	-	40,080	2,702
Equipment rental	793	18,032	1,039	135	-	1,647	1,964	2,599
Outside services	50,548	46,238	64,941	8,406	286	364	90,716	32,286
Program supplies	25,576	77,124	31,426	5,544	877	3,073	22,644	44,833
Repairs and maintenance	5,860	6,244	17,979	8	1,029	213	6,776	4,009
Medi-Cal quality assurance	392,140	-	-	-	-	-	-	-
Medications	29,913	-	-	-	-	-	-	-
	<u>\$ 7,206,117</u>	<u>\$ 3,949,778</u>	<u>\$ 2,856,752</u>	<u>\$ 736,430</u>	<u>\$ 1,148,235</u>	<u>\$ 221,096</u>	<u>\$ 951,152</u>	<u>\$ 441,793</u>
Percentage	28.3%	15.5%	11.2%	2.9%	4.5%	0.9%	3.7%	1.7%

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, 2023

	Program Services			Supporting Services			Total
	Therapy Services	HUD Affiliates	Program Services Total	Management and General	Development	Supporting Services Total	
Salaries	\$ 1,156,195	\$ 377,584	\$ 12,430,017	\$ 1,805,389	\$ 290,534	\$ 2,095,923	\$ 14,525,940
Payroll taxes	85,203	28,764	920,585	214,144	20,019	234,163	1,154,748
Health insurance/Wellness	86,841	24,264	723,867	495,887	14,319	510,206	1,234,073
Workers compensation	35,932	24,951	489,360	19,540	2,452	21,992	511,352
Client activities	53	-	56,581	-	-	-	56,581
Vocational service	6	-	19,571	87	15	102	19,673
Vehicle expense	-	-	465,621	2,121	60	2,181	467,802
Information Technology	37,131	31,236	267,368	325,146	35,193	360,339	627,707
Office supplies	945	-	27,476	30,640	7,442	38,082	65,558
Advertising	2,677	-	44,203	16,231	3,038	19,269	63,472
Utilities	699	271,662	691,349	48,187	19,882	68,069	759,418
Interest	-	10,721	13,880	6,732	-	6,732	20,612
Dues and subscriptions	2,163	4,455	23,903	33,987	9,513	43,500	67,403
Insurance	-	30,118	84,821	90,548	3,406	93,954	178,775
Depreciation	-	264,217	912,317	92,961	64,080	157,041	1,069,358
Rent	956	-	805,446	44,209	7,002	51,211	856,657
Unreimbursed Services	11,375	69	19,322	14,422	20,000	34,422	53,744
Bank charges	2,925	114	23,285	28,738	1,811	30,549	53,834
Business promotion	68	-	7,536	31,737	6,433	38,170	45,706
Taxes and licenses	1,682	7,830	153,292	372	277	649	153,941
Seminars	476	-	18,976	54,150	6,831	60,981	79,957
Auto allowance & mileage	22,624	-	181,335	53,669	2,709	56,378	237,713
Food	-	-	434,724	9,329	3,481	12,810	447,534
Household supplies	-	46,181	271,373	19,885	13,685	33,570	304,943
Equipment rental	-	10,046	36,255	10,351	272	10,623	46,878
Outside services	5,922	172,275	471,982	913,000	152,596	1,065,596	1,537,578
Program supplies	1,849	-	212,946	41,206	3,729	44,935	257,881
Repairs and maintenance	-	60,812	102,930	9,317	357	9,674	112,604
Medi-Cal quality assurance	-	-	392,140	-	-	-	392,140
Medications	-	-	29,913	-	-	-	29,913
	<u>\$ 1,455,722</u>	<u>\$ 1,365,299</u>	<u>\$ 20,332,374</u>	<u>\$ 4,411,985</u>	<u>\$ 689,136</u>	<u>\$ 5,101,121</u>	<u>\$ 25,433,495</u>
Percentage	5.7%	5.4%	79.9%	17.4%	2.7%	20.1%	100.0%

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

T.E.R.I., INC. & AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 4,332,445
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	1,069,358
Change in Investments	(2,249)
(Increase) Decrease in Assets:	
Accounts Receivable	(4,168,576)
Contribution Receivable	1,651,400
Prepaid Expenses and Other Assets	115,264
Deposits	8,721
Increase (Decrease) in Liabilities:	
Accounts Payable	1,892,009
Salaries and Benefits Payable	(346,004)
Accrued Expenses	825,473
Accrued Interest	5,164
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>5,383,005</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of Property and Equipment	(351,087)
Increase Construction in Progress	(2,964,389)
NET CASH USED BY INVESTING ACTIVITIES	<u>(3,315,476)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on Debt	(1,253,502)
NET CASH USED BY FINANCING ACTIVITIES	<u>(1,253,502)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 814,027
 BEGINNING CASH AND CASH EQUIVALENTS	 <u>6,056,225</u>
 ENDING CASH AND CASH EQUIVALENTS	 <u>\$ 6,870,252</u>

Supplemental Disclosures of Cash Flow Information:
Cash paid during year for interest \$37,633.

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

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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 applied behavior analysis and equestrian, as well as other programs for its clients and their families. In addition, it operates a thrift store, Cafe', Theater, and Event Venue operations, 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, 2023

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.

Cost Allocations

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied and that is also in accordance with guidance of any specific funding terms and conditions associated with the funding received. Allocated expenditures for shared costs include compensation and benefits, which are allocated either on the basis of actual time tracking or estimates of time and effort such as may be extrapolated from a time study. Costs such as contract services are allocated to the program which receives the benefit and may be further allocated based on clients, employees, or number of service units. Facility costs are allocated based on square footage.

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.

Advertising

Advertising costs are expensed as incurred. Advertising costs totaling \$63,471 were expensed in the year ended June 30, 2023. There were no advertising costs capitalized during the year ended June 30, 2023.

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

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 \$195,674 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, 2023

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

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 18, 2025, 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, 2023

Note 3 – Cash and Cash Equivalents

Cash and Cash Equivalents consist of the following at June 30, 2023:

	<u>Amount</u>
Cash	\$ 6,720,874
Replacement Reserves	149,378
Total	<u>\$ 6,870,252</u>

The Agency maintains cash balances at two financial institutions located in San Diego and San Fransico, 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, 2023, total \$6,877,099.

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	\$ 315,100
One to five years	0
More than five years	0
Total	<u>\$ 315,100</u>

Contributions receivable at June 30, 2023, 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, 2023

Note 5 – Investments – Fair Value Measurements

Fair values measured on a recurring basis at June 30, 2023 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Investment in Equity Securities	<u>\$ 13,301</u>	<u>\$ 13,301</u>

Note 6 – Construction in Progress

The following is a summary of Construction in Progress at June 30, 2023. Interest cost of \$46,996 were capitalized during the fiscal year:

	<u>Amount</u>
Charles R. Cono Campus of Life	\$ 8,754,285
Total	<u>\$ 8,754,285</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.

Note 7 – Client Trust Accounts

Client trust funds of \$221,292 at June 30, 2023, 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.

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

Note 8 – New Pronouncements

Effective July 1, 2022, the Agency adopted FASB ASC 842, Leases. The Agency determines if an arrangement contains a lease at inception based on whether the Agency has the right to control the asset during the contract period and other facts and circumstances. The Agency elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

The adoption of FASB ASC 842 resulted in the recognition of right-of-use-assets, and operating lease liabilities of \$393,316. Results for periods beginning prior to July 1, 2022 continue to be reported in accordance with historical accounting treatment. The adoption of FASB ASC 842 did not have a material impact on the Agency's results of operations, cash flows or debt covenants.

Note 9 – Operating Lease Right-Of-Use Assets

The Agency leases buildings under operating leases with 5-year initial terms. Most leases include renewal options which can be extended. The exercise of these renewal options is at the sole discretion of the Agency, and only lease options that the Agency believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities. Variable payments, if any, are not determinable at the lease commencement and are not included in the measurement of the lease assets and liabilities. The lease agreements do not include any material residual value guarantees or restrictive covenants. The weighted average remaining lease term is 12 years. The weighted average discount rate is 3%.

The following summarizes the line items in the balance sheet which includes amounts for operating leases as of June 30, 2023:

Operating lease right-of-use assets	<u>\$ 393,316</u>
Current portion of long-term operating lease liability	\$ 301,383
Operating lease liabilities	<u>91,933</u>
Total operating lease liabilities	<u>\$ 393,316</u>

The following summarizes the cash flow information related to operating leases for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:
Operating cash flows for operating leases \$438,834.

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

Note 10 – Property and Equipment, Net

Property and equipment consist of the following at June 30, 2023:

	<u>Amount</u>
Deer Springs Campus	\$ 13,722,001
Residences	6,444,724
Land	2,010,395
Leasehold Improvements	3,009,494
Vehicles	2,141,431
Equipment & Furniture	<u>435,321</u>
 Total	 27,763,366
Less Accumulated Depreciation	<u>(9,338,277)</u>
 Property and Equipment, Net	 <u>\$ 18,425,089</u>

Depreciation expense was \$1,069,358 for the year ended June 30, 2023.

Note 11 – Line of Credit

The Agency has a \$750,000 operating line of credit with a zero balance as of June 30, 2023. The operating line of credit has a maturity date of January 15, 2025. The line subsequently renewed with a maturity date of January 15, 2027. The lines of credit are secured by the Agency's inventory, equipment, accounts receivable, and general intangibles and requires compliance with certain loan covenants.

Note 12 – Defined Contribution Plan

The Agency has established a contributory retirement plan available for all eligible employees which allows participants to make tax deferred investment contributions. The plan qualifies as a cash or deferred arrangement 403(b) plan. The Agency match was 12% of employee deferrals. The Agency match due is \$55,971 for the year ending June 30, 2023.

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

Note 13 – Notes Payable

Notes payable consist of the following at June 30, 2023:

	<u>Amount</u>
<p>Loan agreement with a financial institution to finance improvements up to \$14,150,000. The loans are non-revolving. Monthly payments of interest only through the conversion date and then starting January 1, 2025 monthly payments of interest and principal of \$65,891. Interest is at 3.5% per annum. The full note balance was drawn down subsequent to June 30, 2023. The note balance is due April 2052, and is secured by a first deed of trust on the campus land, facilities and furnishing.</p>	\$ 998,806
<p>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 final payment is in December 2025. The note is secured by a deed of trust.</p>	390,351
<p>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.</p>	70,000
<p>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.</p>	61,831
<p>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.</p>	110,313
<p>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.</p>	40,000
<p>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.</p>	79,884
<p>Approximately twenty-eight notes payable in monthly payments of interest and principal totaling approximately \$16,400 including interest at rates ranging from 0 to 8.49%. The notes are generally 60 months and are collateralized by vehicles.</p>	<u>357,358</u>
Total	<u>\$ 2,108,543</u>

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

Note 13 – Notes Payable (continued)

Current portion of the Line of Credit and Notes Payable is \$256,770 for year ending June 30, 2023.

The following is a schedule of future minimum principal payments as of June 30, 2023:

<u>Year Ending June 30:</u>	<u>Amount</u>
2024	\$ 256,770
2025	268,886
2026	662,195
2027	342,528
2028	296,018
Thereafter	<u>282,146</u>
	<u>\$ 2,108,543</u>

Note 14 – 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, 2023 was \$44,440. 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 15 – 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 \$903,535 for the year ended June 30, 2023.

Future minimum lease payments under operating lease are as follows:

<u>Year Ending June 30:</u>	
2024	\$ 303,451
2025	78,393
2026	22,082
2027	0
2028	0

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

Note 15 – 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	<u>582,900</u>
Total	<u>\$ 4,863,793</u>

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 net assets.

See Independent Auditors' Report

T.E.R.I., INC. & AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

Note 15 – Commitments and Contingencies (continued)

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 net assets.

Note 16 – 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	\$ 6,870,252
Investments	13,301
Client Trust Accounts	<u>221,292</u>
Total Financial Assets	\$ <u>7,104,845</u>
Less those unavailable for general expenditures within one year, due to:	
Assets with donor restrictions	(913,627)
Replacement Reserves - restricted use	(149,378)
Client Trust Accounts – restricted use	<u>(221,292)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>5,820,548</u>

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 which it could draw upon in the event of any unanticipated liquidity needs.

See Independent Auditors' Report