

**TERRY LAW MINISTRIES, INC. - DBA, WORLD COMPASSION,
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY**

Financial Statements
and
Independent Auditor's Report

For the Years Ended December 31, 2019 and 2018

TERRY LAW MINISTRIES, INC. - DBA, WORLD COMPASSION, SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY

Table of Contents

	<u>Page(s):</u>
Independent Auditor's Report	1
<u>Financial Statements:</u>	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Functional Expenses	4
Consolidated Statements of Cash Flows	5
Notes to the Financial Statements	6 – 12



To the Board of Trustees of
Terry Law Ministries, Inc., dba World Compassion,
Subsidiary and Related Variable Interest Entity
Tulsa, Oklahoma

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of TERRY LAW MINISTRIES, INC. – DBA, WORLD COMPASSION, SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY (a non-profit organization), which comprise the consolidated statements of position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 risk 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of TERRY LAW MINISTRIES, INC. – DBA, WORLD COMPASSION, SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hood & Associates CPAs, P.C.

Hood and Associates CPAs, P.C.
Tulsa, Oklahoma
August 18, 2020

HOOD & ASSOCIATES CPAs, P.C.

**TERRY LAW MINISTRIES, INC. - DBA WORLD COMPASSION,
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018**

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents (Note A)	\$ 326,173	\$ 305,308
Inventory, books, tapes and clothing (Note A)	26,399	20,318
Total current assets	<u>352,572</u>	<u>325,626</u>
Property and equipment, at historical acquisition cost: (Note A)		
Building, building improvements and land	1,001,106	1,001,106
Furniture and equipment	235,946	235,946
Computer equipment	153,052	153,052
Total property and equipment, at historical acquisition cost	1,390,104	1,390,104
Less: Accumulated depreciation	<u>(766,869)</u>	<u>(728,372)</u>
Total property and equipment, net of accumulated depreciation	<u>623,235</u>	<u>661,732</u>
Other assets, non-current:		
Other assets, cash surrender value of life insurance policies (Note C)	1,057,563	1,010,774
Intangible assets and fees, net of accumulated amortization (Note A)	28,049	30,766
Prepaid expenses and other assets	10,383	10,383
Total other assets, non-current	<u>1,095,995</u>	<u>1,051,923</u>
Total assets	<u>\$ 2,071,802</u>	<u>\$ 2,039,281</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 64,834	\$ 128,314
Current portion of note payable (Note D)	68,592	65,416
Total current liabilities	<u>133,426</u>	<u>193,730</u>
Long-term liabilities:		
Note payable, long-term debt (Note D)	464,860	528,183
Total liabilities	<u>598,286</u>	<u>721,913</u>
Net assets:		
Without donor restrictions (Notes A and B)	1,462,201	1,317,368
With donor restrictions (Notes A and B)	11,315	-
Total net assets	<u>1,473,516</u>	<u>1,317,368</u>
Total liabilities and net assets	<u>\$ 2,071,802</u>	<u>\$ 2,039,281</u>

The accompanying notes are an integral part of these consolidated financial statements.

**TERRY LAW MINISTRIES, INC. - DBA WORLD COMPASSION,
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<u>Changes in net assets, without donor restrictions:</u>		
Support and revenue:		
Contributions and offerings, undesignated	\$ 1,487,930	\$ 1,495,761
Increase in cash surrender value of life insurance (Note C)	46,789	47,512
Other income	19,213	8,724
Contributions and offerings, in-kind (Note A)	6,040	14,369
Product sales	4,596	5,258
Interest income	114	69
Gain or (loss) on sale of securities	(46)	(6)
Total support and revenue without donor restrictions, before release of donor-imposed restrictions	1,564,636	1,571,687
Net assets, released from donor imposed restrictions (Note B)	211,656	319,118
Total support and revenue, without donor restrictions	1,776,292	1,890,805
Expenses:		
Program services expenses	1,453,490	1,508,276
Management and general expenses	121,300	134,616
Fund raising expenses	56,669	32,520
Total expenses	1,631,459	1,675,412
Increase or (decrease) in net assets, without donor restrictions	144,833	215,393
<u>Changes in net assets, with donor restrictions:</u>		
Support and revenue:		
Contributions and offerings, donor designated	222,971	305,742
Satisfaction of donor restrictions (Note B)	(211,656)	(319,118)
Increase or (decrease) in net assets, with donor restrictions	11,315	(13,376)
Changes in net assets	156,148	202,017
Net assets, beginning of year	1,317,368	1,115,351
Net assets, end of year	\$ 1,473,516	\$ 1,317,368

The accompanying notes are an integral part of these consolidated financial statements.

**TERRY LAW MINISTRIES, INC. - DBA, WORLD COMPASSION,
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2019 and 2018**

	For the Year Ended December 31, 2019			2018 Totals:	
	Program Services	Management & General	Fund Raising		Totals:
Salaries and related expenses:					
Salaries and wages, officers	\$ 295,114	\$ 32,790	\$	\$ 327,904	\$ 300,747
Salaries and wages, other employees	122,976	13,664		136,640	178,019
Other employee benefits	77,418	8,602		86,020	99,108
Payroll taxes	18,410	2,046		20,456	23,830
Total salaries and related expenses	513,918	57,102		571,020	601,704
Project expenses:					
Project expenses, Myanmar	107,593			107,593	120,216
Project expenses, Iran	80,894			80,894	64,770
Project expenses, China	72,948			72,948	90,672
Project expenses, Iraq	52,338			52,338	172,429
Project expenses, Other	26,094			26,094	-
Project expenses, Cuba	10,685			10,685	-
Total project expenses	350,552			350,552	448,087
Other functional expenses:					
Fees for services, other	132,474			132,474	114,307
Conferences, conventions and meetings	72,350		24,117	96,467	61,534
Travel and lodging	83,490			83,490	55,402
Printing and publications	29,665	3,119	29,595	62,379	54,030
Postage	45,559			45,559	44,399
Donations to ministries	43,603			43,603	44,690
Depreciation and amortization expense	37,093	4,121		41,214	57,920
Office expenses	35,918	3,991		39,909	27,266
Occupancy	35,743	3,971		39,714	39,209
Interest expense	35,610	3,957		39,567	48,137
Legal and professional fees		30,529		30,529	24,150
Other miscellaneous expenses	15,889	3,972		19,861	15,895
Insurance		8,749		8,749	8,250
Donations to missions	8,029			8,029	12,360
Information technology, donor software	7,345			7,345	7,282
Honorariums	6,000			6,000	
Advertising and promotion		329	2,957	3,286	7,651
Information technology, other		1,460		1,460	2,491
Cost of goods sold	252			252	378
Total functional expenses	\$ 1,453,490	\$ 121,300	\$ 56,669	\$ 1,631,459	\$ 1,675,142

The accompanying notes are an integral part of these consolidated financial statements.

**TERRY LAW MINISTRIES, INC. - DBA, WORLD COMPASSION,
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from supporters	\$ 1,734,710	\$ 1,815,485
Cash paid to suppliers and employees	(1,615,377)	(1,590,498)
Interest income	114	69
Interest (expense)	(39,567)	(48,137)
Net cash provided by or (used in) operating activities	<u>79,880</u>	<u>176,919</u>
Cash flows from investing activities:		
Proceeds from sales of investments	1,132	14,364
Purchases of property and equipment	-	(16,360)
Net cash provided by or (used in) investing activities	<u>1,132</u>	<u>(1,996)</u>
Cash flows from financing activities:		
Principal payments on notes payable	(60,147)	(57,345)
Net cash provided by or (used in) financing activities	<u>(60,147)</u>	<u>(57,345)</u>
Net increase or (decrease) in cash and cash equivalents	20,865	117,578
Cash and cash equivalents, beginning of year	<u>305,308</u>	<u>187,730</u>
Cash and cash equivalents, end of year	<u>\$ 326,173</u>	<u>\$ 305,308</u>
Reconciliation of changes in net assets to net cash provided by or (used in) operating activities:		
Changes in net assets, net of non-cash investing items *	\$ 108,181	\$ 140,136
Adjustments to reconcile changes in net assets to net cash provided by or (used in) operating activities:		
Depreciation and amortization expense	41,214	57,920
Gain or loss on sale of investments	46	6
Changes in assets and liabilities:		
(Increase) or decrease in inventory, books, tapes and clothing	(6,081)	(124)
Increase or (decrease) in accounts payable	(63,480)	(21,019)
Total adjustments and changes in assets and liabilities	<u>(28,301)</u>	<u>36,783</u>
Net cash provided by or (used in) operating activities	<u>\$ 79,880</u>	<u>\$ 176,919</u>

* Non-cash investing items consisted of increases in cash surrender value of life insurance of \$46,789 and \$47,512 for the years ended December 31, 2019 and 2018, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

TERRY LAW MINISTRIES, INC. - DBA WORLD COMPASSION, SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY

Notes to the Consolidated Financial Statements

As of and for the Years Ended December 31, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities

Terry Law Ministries, Inc., DBA World Compassion, was originally incorporated in the State of Oklahoma as “Living Sound International, Inc.” on January 6, 1971. In 1991, the name of the Organization was subsequently changed to Terry Law Ministries, Inc., doing business under the trade name of World Compassion. The purpose of the Organization is to preach the gospel of Jesus Christ throughout the United States and the rest of the world and to help meet the spiritual and social needs of people according to the teachings of Christ. The Organization receives a majority of its income from contributions by the general public.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Terry Law Ministries, Inc., DBA World Compassion, Asian Enterprises, Inc., and World Compassion Foundation, Inc. All material intercompany accounts and inter-organization transactions, if any, have been eliminated in consolidation.

Asian Enterprises (“subsidiary”) is a separately incorporated U.S. for-profit corporation and is considered a wholly owned subsidiary of Terry Law Ministries, Inc. Asian Enterprises has limited activity and exists solely for the purpose of conducting international business transactions for mission projects in Asia.

World Compassion Foundation (“related variable interest entity”) is a separately incorporated, U.S. non-profit charitable foundation and is considered to be a related variable interest entity. World Compassion Foundation exists solely for the purpose of underwriting the mission of Terry Law Ministries and its limited activity consists primarily as a mechanism for legacy gifts from donors.

The consolidated financial statements reflect the consolidated statements of financial position and consolidated statements of activities of the Organizations shown above (hereafter collectively referred to as “the Organization”).

Basis of Accounting

The accompanying financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America utilizing the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred and accordingly, the financial statements of the Organization reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements Not-for-Profit Entities*. Under FASB ASU 2016-14, the Organization is required to report information regarding its financial position and activities according to two classes of net assets; net assets with donor restrictions, and net assets without donor restrictions, based upon the existence or absence of donor-imposed restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and disclosures at the date of the financial statements and during the reporting period. Accordingly, actual results could differ from the estimates that were used.

**TERRY LAW MINISTRIES, INC. - DBA WORLD COMPASSION,
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY**

Notes to the Consolidated Financial Statements
As of and for the Years Ended December 31, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Revenue Recognition

Contributions received are recorded as being either “with donor-imposed restrictions” or “without donor-imposed restrictions”, depending on the existence and/or nature of any donor-imposed restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as contributions without donor restrictions. All donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without restrictions and are reported in the statements of activities as net assets released from donor restrictions.

Contributed Services, Materials and Property and Equipment

The Organization receives services donated by volunteers and business entities. Contributed services in the amount of \$4,862 have been reflected in the consolidated financial statements for such services. The Organization may also occasionally receive donations of goods. Donations of goods with fair market values in excess of \$500, if any, are recorded and included in contribution revenues in the accompanying consolidated financial statements as “in-kind contributions” at their respective fair market values at the date(s) of receipt.

Promises to Give

Contributions are recognized as revenues when the Organization physically receives the contribution(s) from the donor(s). Promises to give are not recognized by the Organization prior to actual transfers of funds. Contributions with donor-imposed restrictions are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized. All other contributions with donor restrictions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Income Taxes

The Organization is considered to be a non-profit corporation by the Internal Revenue Service. The Organization filed a form 1023 with the Internal Revenue Service and received a determination letter dated August 7, 1974. As such, the Organization is thereby exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made within the accompanying consolidated financial statements. The Organization qualifies for deductible contributions as provided for by Section 170(b) of the Internal Revenue Code.

The Organization accounts for uncertain tax positions in accordance with the provisions of FASB ASC 740, *Income Taxes*. FASB ASC 740 prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. Using the guidance of FASB ASC 740, income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return only when it is determined that the income tax position will “more likely than not” be sustained upon examination by the taxing authorities. The Organization has analyzed tax positions taken for all required tax filings with the Internal Revenue Service and the State of Oklahoma. As of December 31, 2019, and 2018, the Organization believes that all tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material, adverse effect, on the Organization’s financial statements. Accordingly, the Organization has not recorded any reserves or related accruals for uncertain income tax positions at December 31, 2019 and 2018.

**TERRY LAW MINISTRIES, INC. - DBA WORLD COMPASSION,
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY**
Notes to the Consolidated Financial Statements
As of and for the Years Ended December 31, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Cash and Cash Equivalents

For purposes of the consolidated financial statements, cash and cash equivalents consists of all highly liquid bank deposit holdings available for current use with original maturities of three (3) months or less, when initially purchased. Cash and cash equivalents consist of checking accounts and are carried at their respective historical acquisition costs, which approximate fair market value.

Concentration of Custodial Credit Risk

The Organization maintains balances of cash and cash equivalents at various financial institutions. The Federal Deposit Insurance Corporation ("FDIC") insures accounts at the respective financial institutions up to \$250,000. As of December 31, 2019, the Organization had not exceeded FDIC insurance levels on any of its account balances with the financial institutions.

The Organization also has purchased insurance policies on the life of its president. The cumulative cash surrender value of these policies, \$1,057,563 at December 31, 2019, is maintained with three insurers, which represents a significant concentration that is not covered by any form of insurance.

Inventory; Books, Tapes and Clothing

The Organization's inventory consists of books, tapes and clothing. Inventory is shown at the lower of historical acquisition cost or net realizable value. The method for determining costs at this time is the average cost method.

Property and Equipment, Net of Accumulated Depreciation

The Organization's capitalization policy is to consider capitalization for any individual item with a historical acquisition cost greater than or equal to \$500. Lesser amounts are expensed. Routine repairs and maintenance are expensed as incurred. Property and equipment is stated at historical acquisition cost, net of accumulated depreciation. Depreciation of property and equipment is determined by using straight-line depreciation, calculated over the estimated useful lives of the respective assets, which range from five (5) to thirty (30) years. Donated items of property and equipment are similarly capitalized and depreciated.

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to undiscounted expected cash flows. Future events could cause the Organization to conclude that impairment indicators exist and that long-lived assets may be impaired.

Intangible Assets, Net of Accumulated Amortization

The Organization's intangible assets consist of copyrights on certain existing books written by the president of the Organization and certain other unpublished works. For the years ended December 31, 2019 and 2018, accumulated amortization amounted to \$67,333 and \$65,333, respectively. Amortization expense relating to these assets was \$2,000 and \$2,000 for years ended December 31, 2019 and 2018, respectively.

Fund Raising Costs

Fund raising costs includes both actual costs and allocations of certain indirect costs.

**TERRY LAW MINISTRIES, INC. - DBA WORLD COMPASSION,
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY**

Notes to the Consolidated Financial Statements
As of and for the Years Ended December 31, 2019 and 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Advertising Costs

The Organization expenses all advertising costs in the period in which they are incurred. Advertising costs were \$14,905 and \$13,321 for the years ended December 31, 2019 and 2018, respectively.

Date of Management's Review and Subsequent Events

Management of the Organization has evaluated subsequent events occurring through August 18, 2020, the date that the consolidated financial statements were available for issuance, noting subsequent events that required recognition or disclosure in the accompanying consolidated financial statements and footnotes.

NOTE B – NET ASSETS:

Net Assets, Without Donor Restrictions:

Net assets, without donor restrictions of the Organization are those net assets which are available for the daily operations and general use of the Organization. Net assets, without donor restrictions also include the historical acquisition cost, net of accumulated depreciation, of the Organization's facilities, buildings, land, property and equipment, including those items which have been previously released from donor-imposed restrictions.

Net Assets, With Donor Restrictions:

Net assets, with donor restrictions of the Organization are those net assets which are subject to donor-imposed restrictions for specified programs and activities of the Organization and pledges which are time restricted, if applicable.

The following classifications reflect the nature of restrictions on net assets with donor restrictions as of December 31, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
<u>Nature of net assets, with donor restrictions:</u>		
Subject to expenditure for specified purpose:		
Purpose restrictions and programs, Cuba	\$ <u>11,315</u>	\$ <u>-</u>
Total net assets, with donor restrictions	\$ <u><u>11,315</u></u>	\$ <u><u>-</u></u>

Net assets with donor restrictions were released from donor-imposed restrictions by incurring expenses satisfying the restricted purposes or occurrences of other events specified by donors, as follows:

	<u>2019</u>	<u>2018</u>
<u>Satisfaction of Program Restrictions:</u>		
China	\$ 54,589	\$ 45,755
Myanmar	47,969	\$ 85,969
Iraq	13,913	121,350
Cuba	10,685	1,365
Other programs - Bibles, Disaster Relief, Etc.	<u>84,500</u>	<u>64,679</u>
Total released for satisfaction of program restrictions	\$ <u><u>211,656</u></u>	\$ <u><u>319,118</u></u>

**TERRY LAW MINISTRIES, INC. - DBA WORLD COMPASSION,
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY**

Notes to the Consolidated Financial Statements
As of and for the Years Ended December 31, 2019 and 2018

NOTE C – CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES:

The Organization currently holds various life insurance policies on the life of its former chairman of the board and current president. Details of the policies and their cash surrender values at December 31, 2019 and 2018 are as follows:

<u>Policy Number:</u>	<u>Description of Nature of Policy:</u>	<u>2019</u>	<u>2018</u>
# 4761467	Split-Dollar Policy	\$ 431,304	\$ 413,579
# 4666465	Split-Dollar Policy	330,255	316,397
# 9835522	Split-Dollar Policy	163,665	153,083
# 7031196	Split-Dollar Policy	80,241	84,182
# 15512280	Key Man Policy	25,704	25,843
# 2423201	Split-Dollar Policy	21,759	17,444
# 21516103	Split-Dollar Policy	<u>4,635</u>	<u>246</u>
Total cash surrender value of life insurance policies		<u>\$ 1,057,563</u>	<u>\$ 1,010,774</u>

The Organization's life insurance policies are primarily "split dollar" arrangements under which policy benefits and premium costs are split between an employer and an employee. Under such split dollar arrangements, if the employee were to pass away while the split dollar plan is in effect, the employer would receive from the proceeds in an amount equal to the cash value of the policy or at least its premium payments, and the employee's beneficiary would receive the balance of the death benefit proceeds. The Organization's split dollar arrangements are in the form of a "collateral assignment" plan under which the Organization's founder and/or president owns the policies and the Organization's interest is secured by collateral assignment of the split-dollar policies. The Organization's current chairman of the board, as owner of these policies, cannot surrender or encumber the policies, nor change the beneficiary, without the Organization's consent.

The cash surrender values of the split-dollar policies represent the total of premiums paid which are recoverable by the Organization as of December 31, 2019 and 2018.

NOTE D – NOTES PAYABLE:

Notes payable of the Organization as of December 31, 2019 and 2018, inclusive of long-term debt obligations and amounts due in one year and included in current liabilities, consisted of the following:

	<u>2019</u>	<u>2018</u>
Note payable to a financial institution with an interest rate of 4.75%, payable in monthly installments of \$7,279, due March 2027, collateralized by the Organization's office building as well as a personal guarantee of the Organization's founder	<u>\$ 533,452</u>	<u>\$ 593,599</u>
Total notes payable	533,452	593,599
Less: Current portion of notes payable	<u>(68,592)</u>	<u>(65,416)</u>
Notes payable, long-term debt	<u>\$ 464,860</u>	<u>\$ 528,183</u>

The aggregate maturities of principal payments due on the Organization's notes payable for the years ending after December 31, 2019 are as follows; 2020 – \$68,592, 2021 – \$71,921, 2022 – \$69,748, 2023 – \$73,135 and thereafter – \$250,056.

**TERRY LAW MINISTRIES, INC. - DBA WORLD COMPASSION,
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY**

Notes to the Consolidated Financial Statements
As of and for the Years Ended December 31, 2019 and 2018

NOTE D – NOTES PAYABLE:

The Organization is also subject to certain loan covenants associated with its note payable to the financial institution such as a prohibition of entering into additional debt obligations while the outstanding note payable exists.

NOTE E – COMPENSATED ABSENCES:

Employees of the Organization are entitled to paid vacation and sick days depending upon job classification, length of service and various other factors. In accordance with FASB ASC 710, *Compensation-General*, the Organization has not accrued compensated absences for the years ended December 31, 2019 and 2018, as the amounts cannot reasonably be estimated.

NOTE F – RETIREMENT PLAN:

The Organization sponsors a 403(b) retirement plan for certain eligible employees. The Organization's retirement plan currently does not provide for matching contributions for employee contributions.

NOTE G – RELATED PARTY TRANSACTIONS:

Terry Law Ministries, Inc., DBA World Compassion is related to the following non-profit organizations by virtue of common board membership of its president; World Compassion Trust (England) and World Compassion Society (Canada). The president of Terry Law Ministries, Inc., DBA World Compassion serves as a board member/trustee of these organizations, but both organizations are separately formed and registered charities in their respective countries with separate boards of directors/trustees and are therefore independent of Terry Law Ministries, Inc. The accompanying consolidated financial statements include only the activities of Terry Law Ministries, World Compassion Foundation and Asian Enterprises, as noted in Note A. The related party entities previously mentioned within this footnote, World Compassion Trust and World Compassion Society, report their operations and assets separately and it is the stated policy of the Organization that any applicable transactions with these entities be performed on terms equivalent to those that prevail in similar, arm's length transactions. As such, these entities do not meet the criteria for consolidation within the accompanying consolidated financial statements.

NOTE H – FUNCTIONAL EXPENSE ALLOCATIONS:

The Organization records expenses on a functional basis among three categories: program services, general and administrative and fund raising. Expenses that can be identified with a specific program or supporting service are charged directly to the program or service. Expenses which apply to more than one functional expense category are allocated directly to the program or service category benefited based on estimates made by management of the Organization by using percentage-based cost allocations.

**TERRY LAW MINISTRIES, INC. - DBA WORLD COMPASSION,
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY**

Notes to the Consolidated Financial Statements
As of and for the Years Ended December 31, 2019 and 2018

NOTE I – LIQUIDITY AND AVAILABILITY OF RESOURCES:

The Organization is funded entirely from contributions from donors. Certain donor contributions may contain restrictions on the use of funds that require that resources be used in a certain manner or in a future period. Therefore, the Organization must maintain adequate resources to meet those responsibilities to its donors and certain financial assets may not be available for general expenditure within one year. As a part of the Organization's liquidity management, the Organization structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization invests cash in excess of its daily needs in liquid, interest-bearing accounts such as savings and money market accounts.

At December 31, 2019, the Organization had \$326,173 of cash and cash equivalents available within one year of the date of the financial statements to meet cash needs for general expenditures. Of the cash and cash equivalents balance of \$326,173, \$11,315 was subject to donor restriction that made them unavailable for general expenditure within one year of the date of the financial statements.

The Organization does not currently have a line of credit with a financial institution that is available which it could draw from to help manage unanticipated liquidity needs.

NOTE J – SUBSEQUENT EVENTS:

Subsequent to the year ended December 31, 2019, the Covid-19 outbreak in the United States has caused business disruption through mandated and involuntary closings of schools, businesses and other facilities, as well as travel restrictions to some destinations outside of the United States of America. The current disruptions to business operations are easing as cities, states and foreign countries begin reopening. The Organization expects that this matter could negatively impact its future operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Additionally, subsequent to the year ended December 31, 2019, the Organization is in the process of drafting a retirement separation agreement with the founder of the Organization. Under this agreement, the Organization is to transfer ownership of some of the split-dollar insurance policies to the founder of the Organization and the terms of the cash surrender value and death benefits that the Organization will receive on the insurance policies will be modified. Additional details as to the nature of the retirement separation agreement are forthcoming at this time.