

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

Financial Statements  
and  
Independent Auditor's Report

For the Year Ended December 31, 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 – 11



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 statement of position as of December 31, 2018, and the related consolidated statement of activities, functional expenses and cash flows for the year 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 audit. 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Prior Period Financial Statements

The consolidated financial statements TERRY LAW MINISTRIES, INC. – DBA, WORLD COMPASSION, SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY as of December 31, 2017, were audited by other auditors who have ceased operations, and they expressed an unmodified opinion on those financial statements in their reported dated October 19, 2018, but they have not performed any auditing procedures since that date.

*Hood & Associates CPAs, P.C.*

Hood and Associates CPAs, PC  
Tulsa, Oklahoma  
December 16, 2019

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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents (Note A)	\$ 305,308	\$ 187,730
Inventory, books, tapes and clothing (Note A)	<u>20,318</u>	<u>20,194</u>
Total current assets	<u>325,626</u>	<u>207,924</u>
Property and equipment, at historical acquisition cost: (Note A)		
Building, building improvements and land	1,001,106	984,746
Furniture and equipment	235,946	235,946
Computer equipment	<u>153,052</u>	<u>153,052</u>
Total property and equipment, at historical acquisition cost	1,390,104	1,373,744
Less: Accumulated depreciation	<u>(728,372)</u>	<u>(673,169)</u>
Property and equipment at historical acquisition cost, net	<u>661,732</u>	<u>700,575</u>
Other assets, non-current:		
Other assets, cash surrender value of life insurance policies (Note C)	1,010,774	963,263
Intangible assets and fees, net of accumulated amortization (Note A)	30,766	33,483
Prepaid expenses and other current assets	<u>10,383</u>	<u>10,383</u>
Total other assets, non-current	<u>1,051,923</u>	<u>1,007,129</u>
Total assets	<u>\$ 2,039,281</u>	<u>\$ 1,915,628</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 128,314	\$ 149,333
Current portion of note payable (Note D)	<u>65,416</u>	<u>62,387</u>
Total current liabilities	<u>193,730</u>	<u>211,720</u>
Long-term liabilities:		
Note payable, long-term debt (Note D)	<u>528,183</u>	<u>588,557</u>
Total liabilities	<u>721,913</u>	<u>800,277</u>
Net assets:		
Without donor restrictions (Note A)	1,317,368	1,101,975
With donor restrictions (Notes A and B)	<u>-</u>	<u>13,376</u>
Total net assets	<u>1,317,368</u>	<u>1,115,351</u>
Total liabilities and net assets	<u>\$ 2,039,281</u>	<u>\$ 1,915,628</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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<u>Changes in net assets, without donor restrictions:</u>		
Support & Revenue:		
Contributions and offerings, undesignated	\$ 1,495,761	\$ 1,469,076
Increase in cash surrender value of life insurance (Note C)	47,512	50,940
Contributions and offerings, in-kind (Note A)	14,369	6,620
Other income	8,724	7,093
Product sales	5,258	6,954
Interest income	69	7
Gain or (loss) on sale of securities	(6)	
Total support and revenue without donor restrictions, before release of donor-imposed restrictions	1,571,687	1,540,690
Net assets, released from donor-imposed restrictions (Note B)	319,118	293,676
Total support and revenue, without donor restrictions	1,890,805	1,834,366
Expenses:		
Program services of the ministry	1,508,276	1,590,839
Management and general expenses	134,616	142,950
Fund raising expenses	32,520	47,354
Total expenses	1,675,412	1,781,143
Increase or (decrease) in net assets, without donor restrictions	215,393	53,223
<u>Changes in net assets, with donor restrictions:</u>		
Support & Revenue:		
Contributions and offerings, donor designated	305,742	305,547
Net assets released from donor-imposed restrictions (Note B)	(319,118)	(293,676)
Increase or (decrease) in net assets, with donor restrictions	(13,376)	11,871
Changes in net assets	202,017	65,094
Net assets, beginning of year	1,115,351	1,050,257
Net assets, end of year	\$ 1,317,368	\$ 1,115,351

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, 2018 and 2017**

	For the Year Ended December 31, 2018			2017	
	Program Services	Management & General	Fund Raising	Totals: Totals:	
<u>Salaries and related expenses:</u>					
Salaries and wages, officers	\$ 270,672	\$ 30,075	\$	\$ 300,747	\$ 363,298
Salaries and wages, other employees	160,217	17,802		178,019	277,228
Other employee benefits	89,197	9,911		99,108	112,233
Payroll taxes	21,447	2,383		23,830	29,771
<b>Total salaries and related expenses</b>	<b>541,533</b>	<b>60,171</b>		<b>601,704</b>	<b>782,530</b>
<u>Project expenses:</u>					
Project expenses, Iraq	172,429			172,429	122,253
Project expenses, Myanmar	120,216			120,216	152,500
Project expenses, China	90,672			90,672	94,602
Project expenses, Iran	64,770			64,770	13,000
Project expenses, Other	-			-	12,996
Project expenses, Syrian refugees	-			-	24,502
Project expenses, Cuba	-			-	3,223
<b>Total project expenses</b>	<b>448,087</b>			<b>448,087</b>	<b>423,076</b>
<u>Other functional expenses:</u>					
Fees for services, other	114,307			114,307	55,584
Conferences, conventions and meetings	46,150	15,384		61,534	58,705
Depreciation and amortization expense	52,128	5,792		57,920	45,452
Travel and lodging	55,402			55,402	52,720
Printing and publications	25,694	2,702	25,634	54,030	62,031
Interest expense	43,323	4,814		48,137	56,681
Donations to ministries	44,690			44,690	21,234
Postage	44,399			44,399	59,541
Occupancy	35,288	3,921		39,209	47,526
Office expenses	24,539	2,727		27,266	31,345
Legal and professional fees		24,150		24,150	28,226
Donations to missions	12,360			12,360	2,000
Insurance		8,520		8,520	9,275
Advertising and promotion		765	6,886	7,651	3,609
Information technology, donor software	7,282			7,282	10,167
Information technology, other		2,491		2,491	1,787
Cost of goods sold	378			378	10,425
Other miscellaneous expenses	12,716	3,179		15,895	19,229
<b>Total functional expenses</b>	<b>\$ 1,508,276</b>	<b>\$ 134,616</b>	<b>\$ 32,520</b>	<b>\$ 1,675,412</b>	<b>\$ 1,781,143</b>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from supporters	\$ 1,815,485	\$ 2,468,110
Cash paid to suppliers and employees	(1,590,498)	(2,516,332)
Interest income	69	328
Interest (expense)	<u>(48,137)</u>	<u>(44,084)</u>
Net cash provided by or (used in) operating activities	<u>176,919</u>	<u>(91,978)</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(16,360)</u>	<u>(11,685)</u>
Net cash provided by or (used in) investing activities	<u>(16,360)</u>	<u>(11,685)</u>
Cash flows from financing activities:		
Principal payments on notes payable	<u>(57,345)</u>	<u>(24,943)</u>
Net cash provided by or (used in) financing activities	<u>(57,345)</u>	<u>(24,943)</u>
Net increase or (decrease) in cash and cash equivalents	103,214	(128,606)
Cash and cash equivalents, beginning of year	<u>187,730</u>	<u>322,043</u>
Cash and cash equivalents, end of year	<u>\$ 290,944</u>	<u>\$ 193,437</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 *	<u>\$ 140,136</u>	<u>\$ (122,223)</u>
Adjustments to reconcile changes in net assets to net cash provided by or (used in) operating activities:		
Depreciation and amortization expense	57,920	43,688
Gain or loss on sale of securities	6	
Changes in assets and liabilities:		
(Increase) or decrease in inventory, books, tapes and clothing	(124)	(5,354)
(Increase) or decrease in prepaid expenses and other current assets	-	(4,777)
Increase or (decrease) in accounts payable	<u>(21,019)</u>	<u>(3,312)</u>
Total adjustments and changes in assets and liabilities	<u>36,783</u>	<u>30,245</u>
Net cash provided by or (used in) operating activities	<u>\$ 176,919</u>	<u>\$ (91,978)</u>

\* Non-cash investing items consisted of increases in cash surrender value of life insurance of \$47,512 and \$50,940 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017

### **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.

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, 2018 and 2017**

**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 statement of activities as net assets released from donor restrictions.

Contributed Services, Materials and Property and Equipment

The Organization receives services donated by volunteers. No amounts have been reflected in the consolidated financial statements for such services as they do not meet the criteria for recognition under FASB ASC 958, *Not-for-Profit Entities*. 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, 2018 and 2017, 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, 2018 and 2017.

**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, 2018 and 2017

**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, 2018, 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, \$1,010,774 at December 31, 2018, is maintained with a single insurer, 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, 2018 and 2017, accumulated amortization amounted to \$65,333 and \$63,333, respectively. Amortization expense relating to these assets was \$2,000 and \$4,666 for years ended December 31, 2018 and 2017, 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, 2018 and 2017

**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 \$13,321 and \$8,808 for the years ended December 31, 2018 and 2017, respectively.

**Date of Management's Review and Subsequent Events**

Management of the Organization has evaluated subsequent events occurring through December 16, 2019, the date that the consolidated financial statements were available for issuance, noting no events that required recognition or disclosure in the accompanying consolidated financial statements and footnotes.

**NOTE B – NET ASSETS, WITH DONOR RESTRICTIONS:**

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>Satisfaction of Program Restrictions:</u>	<u>2018</u>	<u>2017</u>
Iraq	\$ 121,350	120,208
Myanmar	85,969	\$ 82,445
China	45,755	42,639
Other programs - Bibles, Disaster Relief, Etc.	<u>66,044</u>	<u>72,126</u>
Total released for satisfaction of program restrictions	<u>\$ 319,118</u>	<u>\$ 317,418</u>

**NOTE C – CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES:**

The Organization currently holds various life insurance policies on the life of its current chairman of the board. Details of the policies and their cash surrender values at December 31, 2018 and 2017 are as follows:

<u>Policy Number:</u>	<u>Description of Nature of Policy:</u>	<u>2018</u>	<u>2017</u>
# 4761467	Split-Dollar Policy	\$ 413,579	\$ 396,810
# 4666465	Split-Dollar Policy	316,397	303,387
# 9835522	Split-Dollar Policy	153,083	142,865
# 7031196	Split-Dollar Policy	84,182	87,277
# 15512280	Key Man Policy	25,843	24,163
# 2423201	Split-Dollar Policy	17,444	8,515
# 21516103	Split-Dollar Policy	<u>246</u>	<u>246</u>
Total cash surrender value of life insurance policies		<u>\$ 1,010,774</u>	<u>\$ 963,263</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, 2018 and 2017

**NOTE C – CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES – (Continued):**

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 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, 2018 and 2017.

**NOTE D – NOTES PAYABLE:**

Notes payable of the Organization as of December 31, 2018 and 2017, inclusive of long-term debt obligations and amounts due in one year and included in current liabilities, consisted of the following:

	<u>2018</u>	<u>2017</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	\$ 593,599	\$ 650,944
Total notes payable	593,599	650,944
Less: Current portion of notes payable	<u>(65,416)</u>	<u>(62,387)</u>
Notes payable, long-term debt	<u>\$ 528,183</u>	<u>\$ 588,557</u>

The aggregate maturities of principal payments due on the Organization's notes payable for the years ending after December 31, 2018 are as follows; 2019 – \$65,416, 2020 – \$68,592, 2021 – \$71,921, 2022 – \$69,748 and thereafter – \$317,922.

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, 2018 and 2017, 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.

**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, 2018 and 2017

**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.

**NOTE I – LIQUIDITY AND AVAILABILITY OF RESOURCES:**

The Organization is funded entirely from contributions from donors. Many donor contributions 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 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 – CHANGE IN NON-PROFIT ACCOUNTING STANDARD:**

On August 18, 2016, the FASB issued Accounting Standard Update ("ASU") 2016-14 (Topic 958): "*Presentation of Financial Statements of Not-for-Profit Entities*" effective for fiscal years beginning after December 15, 2017. Under the new accounting standard the Organization is required to present, on the face of the financial statements, both on the statements of financial position and the statements of activities, the amount for each of two classes of net assets – *net assets with donor restrictions* and *net assets without donor restrictions* – as opposed to the three classes that were previously required (unrestricted, temporarily restricted and permanently restricted). The application of the new standard did not have an impact on the Organization's financial statements.