

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

Report on Examination of Consolidated Financial Statements

For the Years Ended December 31, 2013 and 2012

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

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## Independent Auditor's Report

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

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, 2013 and 2012, 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, 2013 and 2012, 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.

*Elliott, Dozier & Helland, P.C. CPAs*

Elliott, Dozier and Helland, P.C. Certified Public Accountants  
Tulsa, Oklahoma  
November 10, 2014

**TERRY LAW MINISTRIES, INC. - DBA WORLD COMPASSION,  
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
December 31, 2013 and 2012**

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	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents - unrestricted (Note A)	\$ 142,163	\$ 126,690
Cash and cash equivalents - temporarily restricted (Note A)	2,381	82,692
Inventory, books, tapes and clothing (Note A)	19,583	19,970
Prepaid expenses and other current assets	<u>155</u>	<u>1,913</u>
Total current assets	<u>164,282</u>	<u>231,265</u>
Property and equipment, net of accumulated depreciation of \$513,656 and \$472,998 (Notes A and C)	712,347	748,794
Other assets, cash surrender value of life insurance policies (Note D)	740,685	685,326
Intangible assets, net of accumulated amortization (Note A)	<u>45,333</u>	<u>49,999</u>
Total assets	<u>\$ 1,662,647</u>	<u>\$ 1,715,384</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 79,559	\$ 53,109
Current portion of notes payable (Note E)	<u>25,511</u>	<u>24,149</u>
Total current liabilities	105,070	77,258
Long-term liabilities:		
Notes payable, long-term debt (Note E)	<u>706,181</u>	<u>730,992</u>
Total liabilities	<u>811,251</u>	<u>808,250</u>
Net assets:		
Unrestricted (Note A)	849,015	826,284
Temporarily restricted (Notes A and B)	<u>2,381</u>	<u>80,850</u>
Total net assets	<u>851,396</u>	<u>907,134</u>
Total liabilities and net assets	<u>\$ 1,662,647</u>	<u>\$ 1,715,384</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, 2013 and 2012**

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	<u>2013</u>	<u>2012</u>
Changes in unrestricted net assets:		
Support & Revenue:		
Contributions and offerings	\$ 1,864,127	\$ 1,872,077
Contributions and offerings, in-kind (Note A)	77,396	19,286
Increase in cash surrender value of life insurance (Note D)	55,361	49,729
Other income	10,946	9,937
Product sales	8,961	14,928
Interest income	211	556
Gain or (loss) on sales of investments	(297)	
Net assets released from restrictions, missions projects (Note B)	<u>225,803</u>	<u>244,251</u>
Total support and revenue, unrestricted	<u>2,242,508</u>	<u>2,210,764</u>
Expenses:		
Program services of the ministry	2,027,889	1,969,358
Management and general expenses	150,056	142,088
Fund raising expenses	<u>41,832</u>	<u>63,192</u>
Total expenses	<u>2,219,777</u>	<u>2,174,638</u>
Increase or (decrease) in unrestricted net assets	<u>22,731</u>	<u>36,126</u>
Changes in temporarily restricted net assets:		
Support & Revenue:		
Contributions and offerings, designated	147,334	291,965
Net assets released from restrictions (Note B)	<u>(225,803)</u>	<u>(244,251)</u>
Increase or (decrease) in temporarily restricted net assets	<u>(78,469)</u>	<u>47,714</u>
Change in net assets	(55,738)	83,840
Net assets, beginning of year	<u>907,134</u>	<u>823,294</u>
Net assets, end of year	<u>\$ 851,396</u>	<u>\$ 907,134</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 STATEMENT OF FUNCTIONAL EXPENSES  
For the Years Ended December 31, 2013 and 2012**

	For the Year Ended December 31, 2013				2012 Totals:
	Program Services	Management & General	Fund Raising	Totals:	
Salaries and wages, officers and directors	\$ 406,819	\$ 45,202	\$	\$ 452,021	\$ 449,458
Salaries and wages, other employees	263,248	29,250		292,498	246,146
Other employee benefits	115,462	12,829		128,291	115,649
Payroll taxes	36,864	4,096		40,960	32,620
<b>Total salaries and related expenses</b>	<b>822,393</b>	<b>91,377</b>		<b>913,770</b>	<b>843,873</b>
Project expenses, Others	166,452			166,452	40,817
Project expenses, Myanmar	160,830			160,830	62,348
Project expenses, China	125,190			125,190	114,830
Project expenses, Afghanistan	110,988			110,988	113,013
Project expenses, Iraq	74,112			74,112	45,509
Project expenses, Iran	31,265			31,265	95,451
<b>Total project expenses</b>	<b>668,837</b>			<b>668,837</b>	<b>471,968</b>
Fees for services, other	110,835			110,835	162,960
Travel and lodging	78,185			78,185	149,016
Other expenses, postage	60,564			60,564	77,865
Conferences, conventions and meetings	45,342		15,114	60,456	100,693
Other expenses, printing and publications	26,780	2,815	26,718	56,313	80,133
Occupancy	48,704	5,412		54,116	50,802
Interest	44,785	4,976		49,761	52,082
Depreciation and amortization	40,793	4,532		45,325	53,435
Office expenses	32,372	3,597		35,969	36,845
Fees for services, legal and professional		24,199		24,199	20,653
Other expenses, donations to ministries	14,049			14,049	19,375
Other expenses, donations to missions	9,500			9,500	6,200
Insurance		8,982		8,982	7,808
Information technology	6,242	694		6,936	7,035
Advertising and promotion	3,928	436		4,364	
Cost of goods sold	2,434			2,434	7,829
Other expenses	12,146	3,036		15,182	26,066
<b>Total functional expenses</b>	<b>\$ 2,027,889</b>	<b>\$ 150,056</b>	<b>\$ 41,832</b>	<b>\$ 2,219,777</b>	<b>\$ 2,174,638</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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from supporters	\$ 2,108,764	\$ 2,208,193
Cash paid to suppliers and employees	(2,096,096)	(2,090,127)
Interest income	211	556
Interest (expense)	<u>(49,761)</u>	<u>(52,082)</u>
Net cash provided by or (used in) operating activities	<u>(36,882)</u>	<u>66,540</u>
Cash flows from investing activities:		
Purchases of property and equipment	(4,211)	(11,962)
Purchases of investments, net of sales proceeds	<u>(297)</u>	<u></u>
Net cash provided by or (used in) investing activities	<u>(4,508)</u>	<u>(11,962)</u>
Cash flows from financing activities:		
Principal payments on notes payable	<u>(23,448)</u>	<u>(22,124)</u>
Net cash provided by or (used in) financing activities	<u>(23,448)</u>	<u>(22,124)</u>
Net increase or (decrease) in cash and cash equivalents	(64,838)	32,454
Cash and cash equivalents, beginning of year	<u>209,382</u>	<u>176,928</u>
Cash and cash equivalents, end of year	<u>\$ 144,544</u>	<u>\$ 209,382</u>
Reconciliation of change in net assets to net cash provided by or (used in) operating activities:		
Change in net assets, net of non-cash investing items *	<u>\$ (111,099)</u>	<u>\$ 34,111</u>
Adjustments to reconcile change in net assets to net cash provided by or (used in) operating activities:		
Depreciation and amortization expense	45,325	53,435
(Gain) or loss on sale of investments	297	
Changes in assets and liabilities:		
(Increase) or decrease in inventory, books, tapes and clothing	387	7,830
(Increase) or decrease in prepaid expenses and other current assets	1,758	372
Increase or (decrease) in accounts payable	<u>26,450</u>	<u>(29,208)</u>
Total adjustments and changes in assets and liabilities	<u>74,217</u>	<u>32,429</u>
Net cash provided by or (used in) operating activities	<u>\$ (36,882)</u>	<u>\$ 66,540</u>

\* Non-cash investing items consisted of increases in cash surrender value of life insurance of \$55,361 and \$49,729 for the years ended December 31, 2013 and 2012, 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, 2013 and 2012

### 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 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 for the purpose of conducting international business transactions for mission projects in Asia.

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

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

#### 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 recommendations of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets based upon the existence 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, 2013 and 2012

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

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions. All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions. The Organization's temporarily restricted net assets consist primarily of donations received for missions programs. During the reporting periods, the Organization did not have any revenues or assets that could be considered permanently restricted.

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 that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Income Taxes

The Organization is considered to be a non-profit corporation and 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 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, 2013, 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, 2013 and

**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, 2013 and 2012

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

Income Taxes – (Continued)

2012. The federal and state income tax returns of the Organization for the years ended December 31, 2013, 2012 and 2011 are available for selection for examination by the taxing authorities, generally for three years from the date that the returns were filed.

Cash and Cash Equivalents

For purposes of the consolidated financial statements, cash and cash equivalents consists of all highly liquid instruments 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 historical cost, which approximates market value.

Concentration of Credit Risk

The Organization maintains cash and cash equivalents balances 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, 2013, 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 is maintained with a single insurer, which represents a 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 cost versus market 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 historic 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 cost, net of accumulated depreciation. Depreciation of property and equipment is recorded 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, 2013 and 2012, accumulated amortization amounted to \$44,667 and \$40,001 respectively. Amortization expense relating to these assets was \$4,667 and \$6,000 for years ended December 31, 2013 and 2012, respectively.

**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, 2013 and 2012

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

Fund Raising Expense

Fund raising expense includes actual costs. No indirect costs have been allocated to fund raising expense.

Advertising Costs

The Organization expenses all advertising costs in the period in which they are incurred. Advertising costs were \$4,364 and zero for the years ended December 31, 2013 and 2012, respectively.

Date of Management's Review and Subsequent Events

Management of the Organization has evaluated subsequent events occurring through November 10, 2014, the date that the consolidated financial statements were available for issuance, noting no additional events that required recognition or disclosure in the accompanying consolidated financial statements and footnotes.

**NOTE B – TEMPORARILY RESTRICTED NET ASSETS:**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrences of other events specified by donors. For the years ended December 31, 2013 and 2012, temporarily restricted net assets were released from donor restrictions for the following programs:

	<u>2013</u>	<u>2012</u>
<b>Satisfaction of Program Restrictions:</b>		
Myanmar	\$ 48,946	\$ 23,410
China	14,168	40,926
Afghanistan	11,193	11,982
Iraq	2,245	3,664
Egypt	810	810
Iran	240	118,716
Other programs - Bibles, Disaster Relief, Etc.	<u>148,201</u>	<u>44,743</u>
Total released for satisfaction of program restrictions	<u>\$ 225,803</u>	<u>\$ 244,251</u>

**NOTE C – PROPERTY AND EQUIPMENT:**

Property and equipment as of December 31, 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Building, building improvements and land	\$ 866,763	\$ 866,763
Furniture and equipment	225,376	225,376
Computer and equipment	<u>133,864</u>	<u>129,653</u>
Total property and equipment	1,226,003	1,221,792
Less: Accumulated depreciation	<u>(513,656)</u>	<u>(472,998)</u>
Total property and equipment, net of accumulated depreciation	<u>\$ 712,347</u>	<u>\$ 748,794</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, 2013 and 2012

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

The Organization currently holds various life insurance policies on the life of its president. Details of the policies and their cash surrender values at December 31, 2013 and 2012 are as follows:

<u>Policy Number:</u>	<u>Description of Nature of Policy:</u>	<u>2013</u>	<u>2012</u>
# 4761467	Split-Dollar Policy	\$ 298,646	\$ 273,538
# 4666465	Split-Dollar Policy	230,440	212,037
# 9835522	Split-Dollar Policy	102,754	93,369
# 7031196	Split-Dollar Policy	89,379	88,662
# 15512280	Key Man Policy	<u>19,466</u>	<u>17,720</u>
Total cash surrender value of life insurance policies		<u>\$ 740,685</u>	<u>\$ 685,326</u>

The Organization's life insurance policies are "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 president owns the policies and the Organization's interest is secured by collateral assignment of the split-dollar policies. The Organization's president, 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, 2013 and 2012. Certain life insurance policies (#4761467 and #4666465, see above) have been pledged as collateral on a note payable due to a local financial institution. See the following footnote, Note E, for further information on the balances of the notes payable to the financial institution.

**NOTE E – NOTES PAYABLE:**

Debt obligations due under notes payable as of December 31, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Note payable to a financial institution, with a variable interest rate which is currently 5.5%, payable in monthly installments of \$3,201 and a balloon payment estimated to be \$400,834, due September 2016, collateralized by the Organization's office building	\$ 432,238	\$ 446,090
Note payable to a financial institution, with a variable interest rate which is currently 5.5%, payable in monthly installments of \$2,218 and a balloon payment estimated to be \$277,697, due September 2016, collateralized by life insurance policies (See Note D)	<u>299,454</u>	<u>309,051</u>
Total notes payable	731,692	755,141
Less: Current portion of notes payable	<u>25,511</u>	<u>24,149</u>
Notes payable, long-term debt	<u>\$ 706,181</u>	<u>\$ 730,992</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, 2013 and 2012

**NOTE E – NOTES PAYABLE – (Continued):**

The aggregate maturities of principal payments due on the Organization's notes payable for the years ending after December 31, 2013 are as follows; 2014 - \$25,511, 2015 - \$26,950 and 2016 -\$679,231.

**NOTE F – 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, 2013 and 2012, as the amounts cannot reasonably be estimated.

**NOTE G – 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 H – 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 these consolidated financial statements.

An additional related party to the Organization is a member of the Organization's board of trustees who also provides life insurance and retirement planning services to the Organization and its president. The board of trustees member noted in the previous sentence receives compensation from life insurance companies whose products are owned by the Organization. See the preceding footnote, Note D, for further details on the life insurance products that are owned by the Organization.

**NOTE I – FUNCIONAL EXPENSE ALLOCATIONS**

Expenses that can be identified with a specific program or supporting services are charged directly to the program or supporting services. Expenses which apply to more than one functional category have been allocated based on estimates made by Management.