

**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, 2017 and 2016

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
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, 2017 and 2016, 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

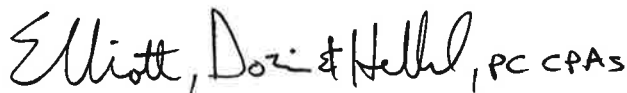
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable 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, 2017 and 2016, 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 and Helland, P.C. Certified Public Accountants
Tulsa, Oklahoma
October 19, 2018

**TERRY LAW MINISTRIES, INC. - DBA WORLD COMPASSION,
SUBSIDIARY AND RELATED VARIABLE INTEREST ENTITY**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents - unrestricted (Note A) | \$ 187,730 | \$ 193,437 |
| Inventory, books, tapes and clothing (Note A) | 20,194 | 20,194 |
| Prepaid expenses and other current assets | <u>10,383</u> | <u>10,383</u> |
| Total current assets | <u>218,307</u> | <u>224,014</u> |
| Property and equipment, at historical acquisition cost: (Note A) | | |
| Building, building improvements and land | 984,746 | 931,375 |
| 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 | <u>1,373,744</u> | <u>1,320,373</u> |
| Less: Accumulated depreciation | <u>(673,169)</u> | <u>(632,742)</u> |
| Property and equipment at historical acquisition cost, net | <u>700,575</u> | <u>687,631</u> |
| Other assets, non-current: | | |
| Other assets, cash surrender value of life insurance policies (Note C) | 963,263 | 912,323 |
| Intangible assets and fees, net of accumulated amortization (Note A) | <u>33,483</u> | <u>31,333</u> |
| Total Other assets, non-current | <u>996,746</u> | <u>943,656</u> |
| Total assets | <u>\$ 1,915,628</u> | <u>\$ 1,855,301</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 149,333 | \$ 148,567 |
| Current portion of notes payable (Note D) | <u>62,387</u> | <u>29,737</u> |
| Total current liabilities | <u>211,720</u> | <u>178,304</u> |
| Long-term liabilities: | | |
| Notes payable, long-term debt (Note D) | <u>588,557</u> | <u>626,740</u> |
| Total liabilities | <u>800,277</u> | <u>805,044</u> |
| Net assets: | | |
| Unrestricted (Note A) | 1,101,975 | 1,048,752 |
| Temporarily restricted (Notes A and B) | <u>13,376</u> | <u>1,505</u> |
| Total net assets | <u>1,115,351</u> | <u>1,050,257</u> |
| Total liabilities and net assets | <u>\$ 1,915,628</u> | <u>\$ 1,855,301</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, 2017 and 2016**

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| <u>Changes in unrestricted net assets:</u> | | |
| Support & Revenue: | | |
| Contributions and offerings, undesignated | \$ 1,469,076 | \$ 1,842,977 |
| Increase in cash surrender value of life insurance (Note C) | 50,940 | 59,089 |
| Other income | 7,093 | 10,012 |
| Product sales | 6,954 | 16,783 |
| Contributions and offerings, in-kind (Note A) | 6,620 | 381,020 |
| Interest income | 7 | 328 |
| Net assets released from program restrictions (Note B) | <u>293,676</u> | <u>220,444</u> |
| Total support and revenue, unrestricted | <u>1,834,366</u> | <u>2,530,653</u> |
| Expenses: | | |
| Program services of the ministry | 1,590,839 | 2,360,928 |
| Management and general expenses | 142,950 | 173,932 |
| Fund raising expenses | <u>47,354</u> | <u>55,801</u> |
| Total expenses | <u>1,781,143</u> | <u>2,590,661</u> |
| Increase or (decrease) in unrestricted net assets | <u>53,223</u> | <u>(60,008)</u> |
| <u>Changes in temporarily restricted net assets:</u> | | |
| Support & Revenue: | | |
| Contributions and offerings, designated | 305,547 | 217,318 |
| Net assets released from program restrictions (Note B) | <u>(293,676)</u> | <u>(220,444)</u> |
| Increase or (decrease) in temporarily restricted net assets | <u>11,871</u> | <u>(3,126)</u> |
| Changes in net assets | 65,094 | (63,134) |
| Net assets, beginning of year | <u>1,050,257</u> | <u>1,113,391</u> |
| Net assets, end of year | <u>\$ 1,115,351</u> | <u>\$ 1,050,257</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 FUNCTIONAL EXPENSES
For the Years Ended December 31, 2017 and 2016**

| | For the Year Ended December 31, 2017 | | | 2016 Totals: | |
|--|--------------------------------------|-------------------------|------------------|---------------------|---------------------|
| | Program Services | Management & General | Fund Raising | | Totals: |
| <u>Salaries and related expenses:</u> | | | | | |
| Salaries and wages, officers | \$ 326,968 | \$ 36,330 | \$ | \$ 363,298 | \$ 441,258 |
| Salaries and wages, other employees | 249,505 | 27,723 | | 277,228 | 436,153 |
| Other employee benefits | 101,010 | 11,223 | | 112,233 | 143,247 |
| Payroll taxes | 26,794 | 2,977 | | 29,771 | 42,871 |
| Total salaries and related expenses | 704,277 | 78,253 | | 782,530 | 1,063,529 |
| <u>Project expenses:</u> | | | | | |
| Project expenses, Myanmar | 152,500 | | | 152,500 | 171,894 |
| Project expenses, Iraq | 122,253 | | | 122,253 | 2,184 |
| Project expenses, China | 94,602 | | | 94,602 | 99,415 |
| Project expenses, Syrian refugees | 24,502 | | | 24,502 | 469,171 |
| Project expenses, Iran | 13,000 | | | 13,000 | 18,050 |
| Project expenses, Other | 12,996 | | | 12,996 | 61,360 |
| Project expenses, Cuba | 3,223 | | | 3,223 | 45,412 |
| Total project expenses | 423,076 | | | 423,076 | 867,486 |
| <u>Other functional expenses:</u> | | | | | |
| Printing and publications | 29,499 | 3,102 | 29,430 | 62,031 | 69,900 |
| Postage | 59,541 | | | 59,541 | 56,693 |
| Conferences, conventions and meetings | 44,029 | | 14,676 | 58,705 | 83,153 |
| Interest expense | 51,013 | 5,668 | | 56,681 | 48,628 |
| Fees for services, other | 55,584 | | | 55,584 | 61,779 |
| Travel and lodging | 52,720 | | | 52,720 | 88,436 |
| Occupancy | 42,773 | 4,753 | | 47,526 | 44,084 |
| Depreciation and amortization expense | 40,907 | 4,545 | | 45,452 | 43,688 |
| Office expenses | 28,211 | 3,134 | | 31,345 | 27,714 |
| Legal and professional fees | | 28,226 | | 28,226 | 24,329 |
| Donations to ministries | 21,234 | | | 21,234 | 44,717 |
| Cost of goods sold | 10,425 | | | 10,425 | 5,015 |
| Information technology, donor software | 10,167 | | | 10,167 | 3,493 |
| Insurance | | 9,275 | | 9,275 | 11,021 |
| Advertising and promotion | | 361 | 3,248 | 3,609 | 2,054 |
| Information technology, other | | 1,787 | | 1,787 | 7,342 |
| Donations to missions | 2,000 | | | 2,000 | |
| Honorariums | | | | | 13,718 |
| Other miscellaneous expenses | 15,383 | 3,846 | | 19,229 | 23,882 |
| Total functional expenses | \$ 1,590,839 | \$ 142,950 | \$ 47,354 | \$ 1,781,143 | \$ 2,590,661 |

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, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from supporters | \$ 1,788,670 | \$ 2,468,110 |
| Cash paid to suppliers and employees | (1,678,244) | (2,516,332) |
| Interest income | 7 | 328 |
| Interest (expense) | <u>(56,681)</u> | <u>(44,084)</u> |
| Net cash provided by or (used in) operating activities | <u>53,752</u> | <u>(91,978)</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | <u>(53,371)</u> | <u>(11,685)</u> |
| Net cash provided by or (used in) investing activities | <u>(53,371)</u> | <u>(11,685)</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of debt | 692,000 | |
| Principal payments on notes payable | <u>(698,088)</u> | <u>(24,943)</u> |
| Net cash provided by or (used in) financing activities | <u>(6,088)</u> | <u>(24,943)</u> |
| Net increase or (decrease) in cash and cash equivalents | (5,707) | (128,606) |
| Cash and cash equivalents, beginning of year | <u>193,437</u> | <u>322,043</u> |
| Cash and cash equivalents, end of year | <u>\$ 187,730</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>\$ 7,534</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 | 45,452 | 43,688 |
| Changes in assets and liabilities: | | |
| (Increase) or decrease in inventory, books, tapes and clothing | - | (5,354) |
| (Increase) or decrease in prepaid expenses and other current assets | - | (4,777) |
| Increase or (decrease) in accounts payable | <u>766</u> | <u>(3,312)</u> |
| Total adjustments and changes in assets and liabilities | <u>46,218</u> | <u>30,245</u> |
| Net cash provided by or (used in) operating activities | <u>\$ 53,752</u> | <u>\$ (91,978)</u> |

* Non-cash investing items consisted of increases in cash surrender value of life insurance of \$50,940 and \$59,089 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016

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 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, 2017 and 2016

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 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, 2017 and 2016, the Organization believes that all tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a

**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, 2017 and 2016

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

Income Taxes – (Continued)

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, 2017 and 2016.

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, 2017, 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, \$963,263 at December 31, 2017, 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 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. Depreciation expense was \$40,427 and \$39,021 for the years ended December 31, 2017 and 2016, respectively.

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, 2017 and 2016, accumulated amortization amounted to \$63,333 and \$58,667, respectively. Amortization expense relating to these assets was \$4,666 and \$4,667 for years ended December 31, 2017 and 2016, 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, 2017 and 2016

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

Fund Raising Expenses

Fund raising expenses include actual costs. No indirect costs have been allocated to fund raising expenses.

Advertising Costs

The Organization expenses all advertising costs in the period in which they are incurred. Advertising costs were \$8,808 and \$12,153 for the years ended December 31, 2017 and 2016, respectively.

Date of Management's Review and Subsequent Events

Management of the Organization has evaluated subsequent events occurring through October 19, 2018, 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 – 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, 2017 and 2016, temporarily restricted net assets were released from donor restrictions for the following programs:

| <u>Satisfaction of Program Restrictions:</u> | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Iraq | \$ 120,208 | 8,843 |
| Myanmar | 82,445 | \$ 67,102 |
| China | 42,639 | 43,170 |
| Other programs - Bibles, Disaster Relief, Etc. | <u>72,126</u> | <u>101,629</u> |
| Total released for satisfaction of program restrictions | <u>\$ 317,418</u> | <u>\$ 220,444</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, 2017 and 2016 are as follows:

| <u>Policy Number:</u> | <u>Description of Nature of Policy:</u> | <u>2017</u> | <u>2016</u> |
|---|---|-------------------|-------------------|
| # 4761467 | Split-Dollar Policy | \$ 396,810 | \$ 376,807 |
| # 4666465 | Split-Dollar Policy | 303,387 | 288,090 |
| # 9835522 | Split-Dollar Policy | 142,865 | 132,339 |
| # 7031196 | Split-Dollar Policy | 87,277 | 88,130 |
| # 15512280 | Key Man Policy | 24,163 | 20,975 |
| # 2423201 | Split-Dollar Policy | 8,515 | 5,736 |
| # 21516103 | Split-Dollar Policy | <u>246</u> | <u>246</u> |
| Total cash surrender value of life insurance policies | | <u>\$ 963,263</u> | <u>\$ 912,323</u> |

**TERRY LAW MINISTRIES, INC. - DBA WORLD COMPASSION,
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Notes to the Consolidated Financial Statements
As of and for the Years Ended December 31, 2017 and 2016

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 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, 2017 and 2016.

NOTE D – NOTES PAYABLE:

Notes payable of the Organization as of December 31, 2017 and 2016, inclusive of long-term debt obligations and amounts due in one year and included in current liabilities, consisted of the following:

| | <u>2017</u> | <u>2016</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 | \$ 650,944 | \$ |
| 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 \$310,624, due December 2021, collateralized by the Organization's office building | | 387,937 |
| Note payable to a financial institution, with an interest rate of 5.5%, payable in monthly installments of \$2,218 and a balloon payment estimated to be \$215,202, due December 2021, collateralized by life insurance policies | <u> </u> | <u>268,540</u> |
| Total notes payable | 650,944 | 656,477 |
| Less: Current portion of notes payable | <u>(62,387)</u> | <u>(29,737)</u> |
| Notes payable, long-term debt | <u>\$ 588,557</u> | <u>\$ 626,740</u> |

The aggregate maturities of principal payments due on the Organization's notes payable for the years ending after December 31, 2017 are as follows; 2018 – \$62,387, 2019 – \$65,416, 2020 – \$68,592, 2021 – \$71,921 and thereafter – \$382,628.

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.

**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, 2017 and 2016

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, 2017 and 2016, 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:

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 expense category have been allocated to the program or service category benefited based on estimates made by management of the Organization by using a percentage-based cost allocation.