

**TRUTH78**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

**TRUTH78  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Truth78  
Mendota Heights, Minnesota

We have audited the accompanying financial statements of Truth78, which comprise the balance sheets as of June 30, 2020 and 2019, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these 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 audit 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 auditors' judgment, including the assessment of the risks 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.

Board of Directors  
Truth78

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Truth78 as of June 30, 2020 and 2019, 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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
February 12, 2021

**TRUTH78  
BALANCE SHEETS  
JUNE 30, 2020 AND 2019**

	2020	2019
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 189,947	\$ 138,995
Accounts Receivable	672	438
Other Assets	-	2,058
Inventory	33,174	57,990
Total Current Assets	223,793	199,481
<b>PROPERTY AND EQUIPMENT</b>		
Website Design	147,349	147,349
Website Design in Process	10,493	-
Less: Accumulated Depreciation	(56,607)	(30,830)
Total Property and Equipment	101,235	116,519
Total Assets	\$ 325,028	\$ 316,000
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 33,169	\$ 61,986
Accrued Expenses	56,545	32,651
Total Current Liabilities	89,714	94,637
<b>NET ASSETS</b>		
Without Donor Restrictions:		
Undesignated	190,399	104,174
Board-Designated	44,915	111,949
Total Without Donor Restrictions	235,314	216,123
With Donor Restrictions	-	5,240
Total Net Assets	235,314	221,363
Total Liabilities and Net Assets	\$ 325,028	\$ 316,000

See accompanying Notes to Financial Statements.

**TRUTH78**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>						
Contributions	\$ 478,124	\$ 18,790	\$ 496,914	\$ 248,330	\$ 22,385	\$ 270,715
Product Sales	863,006	-	863,006	934,806	-	934,806
Conference Revenue	15,866	-	15,866	5,319	-	5,319
Interest Income	20	-	20	37	-	37
Loss on Disposal of Property and Equipment	-	-	-	(1,995)	-	(1,995)
Other Income	1,400	-	1,400	-	-	-
Forgiveness of Government Loan	116,300	-	116,300	-	-	-
Net Assets Released from Purpose Restriction	24,030	(24,030)	-	17,145	(17,145)	-
Total Support and Revenue	<u>1,498,746</u>	<u>(5,240)</u>	<u>1,493,506</u>	<u>1,203,642</u>	<u>5,240</u>	<u>1,208,882</u>
<b>EXPENSES</b>						
Program Expenses	982,106	-	982,106	937,552	-	937,552
Support Expenses:						
Management and General Expense	417,421	-	417,421	268,076	-	268,076
Fundraising Expense	80,028	-	80,028	24,312	-	24,312
Total Support Expenses	<u>497,449</u>	<u>-</u>	<u>497,449</u>	<u>292,388</u>	<u>-</u>	<u>292,388</u>
Total Expenses	<u>1,479,555</u>	<u>-</u>	<u>1,479,555</u>	<u>1,229,940</u>	<u>-</u>	<u>1,229,940</u>
<b>CHANGE IN NET ASSETS</b>	19,191	(5,240)	13,951	(26,298)	5,240	(21,058)
Net Assets - Beginning of Year	<u>216,123</u>	<u>5,240</u>	<u>221,363</u>	<u>242,421</u>	<u>-</u>	<u>242,421</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 235,314</u>	<u>\$ -</u>	<u>\$ 235,314</u>	<u>\$ 216,123</u>	<u>\$ 5,240</u>	<u>\$ 221,363</u>

See accompanying Notes to Financial Statements.

**TRUTH78**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	2020				2019			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and Wages	\$ 285,600	\$ 200,238	\$ 41,008	\$ 526,846	\$ 277,446	\$ 135,283	\$ -	\$ 412,729
Employee Benefits	57,133	74,900	-	132,033	43,619	56,244	-	99,863
Pension	6,369	8,107	-	14,476	6,251	7,956	-	14,207
Payroll Taxes	19,096	24,304	-	43,400	13,771	17,527	-	31,298
Professional Services	34,633	32,339	35,717	102,689	49,543	2,624	21,291	73,458
Accounting Fees	-	5,314	-	5,314	-	8,888	-	8,888
Legal Fees	-	1,100	-	1,100	-	1,700	-	1,700
Advertising and Promotion	30,399	5,587	286	36,272	31,101	4,764	307	36,172
Office Expenses	5,347	2,793	97	8,237	5,252	2,467	49	7,768
Information Technology	42,788	4,731	1,891	49,410	15,438	3,379	1,936	20,753
Occupancy	22,305	10,981	1,029	35,344	15,801	7,780	729	24,310
Travel	5,188	3,491	-	8,679	8,203	3,563	-	11,766
Conferences, Conventions, and Meetings	14,612	-	-	14,612	6,981	-	-	6,981
Insurance	1,844	2,347	-	4,191	2,395	3,048	-	5,443
Training and Development	-	6,716	-	6,716	-	5,446	-	5,446
Cost of Goods Sold	389,095	-	-	389,095	424,582	-	-	424,582
Depreciation and Amortization	-	25,777	-	25,777	-	6,032	-	6,032
Resource Development	43,511	-	-	43,511	14,166	-	-	14,166
Payroll Fees	1,008	1,282	-	2,290	875	1,114	-	1,989
Project Expense	23,178	7,330	-	30,508	22,128	-	-	22,128
Other	-	84	-	84	-	261	-	261
<b>Total Expenses by Function</b>	<b>\$ 982,106</b>	<b>\$ 417,421</b>	<b>\$ 80,028</b>	<b>\$ 1,479,555</b>	<b>\$ 937,552</b>	<b>\$ 268,076</b>	<b>\$ 24,312</b>	<b>\$ 1,229,940</b>

See accompanying Notes to Financial Statements.

**TRUTH78**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 13,951	\$ (21,058)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	25,777	6,032
Loss on Disposal of Property and Equipment	-	1,995
(Increase) Decrease in Current Assets:		
Accounts and Other Receivables	(234)	(298)
Prepaid Expenses	2,058	1,688
Inventory	24,816	(5,789)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(28,817)	(5,598)
Accrued Expenses	23,894	4,049
Net Cash Provided (Used) by Operating Activities	61,445	(18,979)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(10,493)	(53,238)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	50,952	(72,217)
Cash and Cash Equivalents - Beginning of Year	138,995	211,212
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 189,947	\$ 138,995

See accompanying Notes to Financial Statements.



**TRUTH78**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Business**

Truth78's (the Organization) mission is to inspire and equip the Church and the home for the comprehensive discipleship of the next generation. To that end, we aim to fuel spiritual desire by producing God-centered, Bible-saturated, Christ-exalting resources, and by equipping parents and churches working in partnership to instruct the mind, engage the heart, and nurture the faith of the next generations. Truth78 resources include children and youth curricula, parenting resources, Bible memorization programs, and numerous (free) training seminars for Children's Ministry workers.

**Financial Statement Presentation**

Net assets and revenues, gains, and losses of the Organization are classified based on donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Cash and Cash Equivalents**

Cash and cash equivalents includes all cash balances and highly liquid investments with an original maturity of three months or less. The Organization deposits its temporary cash investments in high credit quality financial institutions. At times, such investments may be in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits.

**TRUTH78**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts and Other Receivables**

Receivables are stated at realizable value. The Organization provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. Services are sold on an unsecured basis. An allowance is provided for accounts when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off against the written allowance. At June 30, 2020 and 2019, all amounts were considered collectible and no allowance was deemed necessary.

**Inventory**

Inventory consisting of religious books and materials is valued at current cost utilizing a weighted average method of accounting.

**Property and Equipment**

Property and equipment are carried at cost, less accumulated depreciation. Property and equipment expenditures over \$5,000 are capitalized. Depreciation of property and equipment is computed using the straight-line method over the estimated useful asset lives (shorter of asset life or lease term for leasehold improvements). Depreciation expense for the years ended June 30, 2020 and 2019 was \$25,777 and \$6,032, respectively.

**Accounting Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Revenue Recognition**

Contributions including unconditional promises to give, are recognized as without donor-restricted or with donor restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (i.e., when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from purposes restrictions.

Unconditional contribution pledges are recognized as revenues or gains in the period received, and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional contributions are recognized when the conditions on which they depend are substantially met. Gifts and bequests are recognized when it has been determined that there is a legal right to the gift or bequest and the actual amount to be received has been determined. There were no conditional contributions that had not been met as of June 30, 2020 and 2019.

Product sales are recognized as revenue at the point of time when the sale occurs.

**TRUTH78**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

Conference revenue is recognized at a point in time when the event is held. Any funds received in advance of the conference is recognized as deferred revenue until the event takes place.

**Forgiveness of Government Loan**

On April 20, 2020, the Organization received proceeds in the amount of \$116,300 to fund payroll, rent, utilities, through the Paycheck Protection Program (the "PPP Loan"). The PPP Loan may be forgiven by the U.S. Small Business Administration (SBA) subject to certain performance barriers, as outlined in the loan agreement and the CARES Act. Therefore, the Organization has classified this loan as a conditional contribution for accounting purposes. The Organization recognized \$116,300 of Forgiveness of Government Loan revenue related to this agreement during the year ended June 30, 2020, which represents the PPP loan funds for which the performance barriers have been met. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the organization fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. If the SBA determines that a portion of the PPP loan proceeds will not be forgiven, the Organization would be obligated to repay those funds to the SBA at an interest rate of 1% over a period of 2 years, with payments deferred for up to six months. To the extent that all or part of the PPP Loan is not forgiven, the Organization will be required to pay interest on the PPP Loan at a rate of 1.0% per annum and commencing in October 2020 principal and interest payments will be required through the maturity date in April 2022. Subsequent to year-end, the SBA has formally forgiven the entire balance of the PPP loan.

**Functional Expenses**

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated on the best estimates of management.

**Change in Accounting Principle**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB has issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB Accounting Standards Codification (ASC) 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity and understandability of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. These financial statements reflect the application of ASC 606 guidance beginning in fiscal year 2020. The adoption of ASU 2014-09 did not impact the Organization's reported historical revenue therefore has been applied prospectively.

**TRUTH78**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Change in Accounting Principle (Continued)**

In June 2018, FASB issued ASU 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. These financial statements reflect the adoption of ASU 2018-08 beginning in fiscal year 2020. The implementation of the standard did not impact the Organization's reported revenue and has been applied prospectively.

**Reclassifications**

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. The reclassifications had no effect on the change in net assets or total net assets as previously reported.

**Subsequent Events**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 12, 2021, the date the financial statements were available to be issued.

**NOTE 2 TAX-EXEMPT STATUS**

The Organization qualifies as a tax-exempt organization described in Section 501(c)(3) and is not a private foundation under Section 509(a)(2) of the Internal Revenue Code. As such, it is subject to federal and state income taxes on net unrelated business income.

The Organization adopted the income tax standard for uncertain tax positions. No liability was recognized by the Organization as a result of the standards implementation.

**NOTE 3 LIQUIDITY AND AVAILABILITY**

The Organization regularly monitors the availability of income required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities.

**TRUTH78**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 3 LIQUIDITY AND AVAILABILITY (CONTINUED)**

The following financial assets are available one year after the balance sheet date:

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 189,947	\$ 138,995
Accounts Receivable	672	438
Less: Amounts With Donor Restrictions	<u>-</u>	<u>(5,240)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 190,619</u>	<u>\$ 134,193</u>

**NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes:

	<u>2020</u>	<u>2019</u>
CEF India VBS Program	\$ -	\$ 200
Leadership Campaign	-	4,000
Ukrainian/Russian Translation	-	1,040
Total Net Assets With Donor Restrictions	<u>\$ -</u>	<u>\$ 5,240</u>

**NOTE 5 LEASES**

In January 2016, Truth78 entered into office space lease agreement. The lease commenced on June 1, 2016 and will terminate on May 31, 2021. On May 8, 2020, the Organization negotiated an early termination of their lease effective November 30, 2020 for \$14,792.

In June 2018, the Organization entered into a printing lease that will terminate on May 31, 2021. Rent expense for the years ended June 30, 2020 and 2019 was \$34,316 and \$24,310, respectively.

The following is the future minimum lease payment schedule for the leases noted above:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 2,792
2022	400
Total	<u>\$ 3,192</u>

On September 1, 2020, the Organization entered into a new office lease space for \$200 per month which terminates on September 1, 2021, which is included in the table above.

**TRUTH78**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 6 PENSION PLAN**

The Organization has a Simple IRA plan that covers all employees. Employees are eligible to participate in the plan from date of employment. The Organization matches up to 3% of employee's earnings. The Organization follows the policy of funding retirement plan contributions as accrued. Contributions to the plan totaled \$14,476 and \$28,411 for the years ended June 30, 2020 and 2019, respectively.

**NOTE 7 RELATED PARTIES**

Royalties to one of the authors of the curriculum was distributed into a company that was formed to distribute funds for charitable purposes. One of the owners of this company is the board member, vice chair, and founder of Truth78. During the years ended June 30, 2020 and 2019, the distributed amount to this company totaled \$46,697 and \$41,020, respectively.

Additionally, during the years ended June 30, 2020 and 2019, the Organization received \$26,243 and \$25,315, respectively, from members of the board of directors.

**NOTE 8 SUBSEQUENT EVENTS**

Subsequent to year-end, the Organization received a second loan in the amount of \$157,078 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the federal Paycheck Protection Program. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program.