

# **Truth Initiative Foundation**

Financial Report  
June 30, 2020

## Contents

---

Independent auditor's report	1
<hr/>	
Financial statements	
Balance sheets	2
Statements of activities	3
Statement of functional expenses – 2020	4-5
Statement of functional expenses – 2019	6-7
Statements of cash flows	8
Notes to financial statements	9-25

---



## Independent Auditor's Report

RSM US LLP

Board of Directors  
Truth Initiative Foundation

### Report on the Financial Statements

We have audited the accompanying financial statements of Truth Initiative Foundation (Truth Initiative), 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.

### Auditor's 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 auditor's 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Truth Initiative Foundation 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.

*RSM US LLP*

Washington, D.C.  
September 28, 2020

## Truth Initiative Foundation

### Balance Sheets

June 30, 2020 and 2019

(In Thousands)

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 120,698	\$ 122,090
Investments	727,479	792,313
Accrued interest receivable	241	281
Grants receivable	176	247
Prepaid expenses	902	1,621
Trades to be settled	111	353
Property and equipment, net	3,799	5,055
Other assets	200	427
	<u>\$ 853,606</u>	<u>\$ 922,387</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 9,542	\$ 10,268
Liability on interest rate swap agreement	-	4,927
Loan payable	63,500	60,000
Deferred rent	4,096	4,547
Deferred revenue	196	82
Refundable advance	3,508	522
Other liabilities	916	1,571
	<u>81,758</u>	<u>81,917</u>
Commitments and contingencies (Notes 2, 5 and 8)		
Net assets without donor restrictions	<u>771,848</u>	<u>840,470</u>
	<u>\$ 853,606</u>	<u>\$ 922,387</u>

See notes to financial statements.

**Truth Initiative Foundation**

**Statements of Activities**

**Years Ended June 30, 2020 and 2019**

**(In Thousands)**

	2020	2019
Revenue and support:		
Rental income	\$ -	\$ 185
Sponsored projects and other income	4,106	4,176
Investment income, net of fees	32,537	24,907
Gain on sale of 1724 Mass. Ave. building	-	8,817
Settlement proceeds:		
Public education	-	131
<b>Total revenue and support</b>	<b>36,643</b>	<b>38,216</b>
Expenses:		
Program expenses:		
Counter-marketing and public education	63,872	61,219
Communications	3,875	4,724
Truth Initiative Schroeder Institute	10,567	10,115
Innovations	7,830	6,423
Community and youth engagement	5,331	4,313
Program grants	1,630	1,820
Other programs	1,178	1,143
	<b>94,283</b>	<b>89,757</b>
Supporting services:		
General and administrative	10,982	11,669
Building expenses	-	258
<b>Total expenses</b>	<b>105,265</b>	<b>101,684</b>
<b>Change in net assets</b>	<b>(68,622)</b>	<b>(63,468)</b>
Net assets without donor restrictions:		
Beginning	<b>840,470</b>	903,938
Ending	<b>\$ 771,848</b>	<b>\$ 840,470</b>

See notes to financial statements.

**Truth Initiative Foundation**

**Statement of Functional Expenses**

**Year Ended June 30, 2020**

**(In Thousands)**

	Program Services							Supporting Services		
	Counter-Marketing and Public Education	Communications	Truth Initiative Schroeder Institute	Innovations	Community and Youth Engagement	Program Grants	Other Programs	Total Program Services	General and Administrative	Total
Salaries and fringe	\$ 3,995	\$ 2,044	\$ 4,558	\$ 3,932	\$ 2,265	\$ 336	\$ 690	\$ 17,820	\$ 7,009	\$ 24,829
Contract services	57,596	953	4,837	944	962	-	88	65,380	153	65,533
Grants	-	-	-	147	501	1,225	-	1,873	-	1,873
Travel and lodging	277	61	79	29	585	-	16	1,047	93	1,140
Digital promotions	-	43	-	141	-	-	-	184	-	184
Sponsorship and contributions	8	121	-	-	24	-	1	154	-	154
Consulting	32	7	1	115	23	-	196	374	95	469
Meetings, events and conferences	27	72	14	56	128	-	6	303	13	316
Miscellaneous expense	13	11	9	8	27	-	3	71	287	358
Dues and subscriptions	26	25	58	4	2	-	17	132	39	171
Insurance	80	-	-	-	-	-	-	80	287	367
Computer expense	587	30	21	369	3	-	15	1,025	167	1,192
Telephone and wireless services	43	36	12	76	10	1	1	179	193	372
Depreciation	5	2	-	958	3	-	-	968	785	1,753
Auditing, accounting and payroll processing	-	-	-	-	-	-	-	-	224	224
Legal fees	-	-	7	3	-	-	-	10	163	173
Occupancy	-	-	-	-	-	-	-	-	2,756	2,756
Meals and entertainment	33	7	9	2	118	-	2	171	17	188
Supplies	4	3	1	1	2	-	-	11	79	90
Professional development	13	2	6	3	11	-	-	35	39	74
Printing and publications	-	23	8	7	10	-	5	53	1	54
Postage and shipping	13	4	-	2	42	1	-	62	9	71
Equipment rental, repairs and maintenance	-	-	-	-	1	-	-	1	64	65
Utilities	-	-	-	-	-	-	-	-	61	61
Temporary services	-	-	6	-	-	-	-	6	18	24
UBIT payments	-	-	-	-	-	-	-	-	138	138
Interest	-	-	-	-	-	-	-	-	1,921	1,921
Survey incentives	-	-	-	221	2	-	-	223	-	223
Outreach materials	293	13	-	1	153	-	-	460	-	460
Recruitment ads	8	2	10	1	-	-	-	21	11	32
<b>Total expenses</b>	<b>63,053</b>	<b>3,459</b>	<b>9,636</b>	<b>7,020</b>	<b>4,872</b>	<b>1,563</b>	<b>1,040</b>	<b>90,643</b>	<b>14,622</b>	<b>105,265</b>
Overhead allocation	819	416	931	810	459	67	138	3,640	(3,640)	-
	<b>\$ 63,872</b>	<b>\$ 3,875</b>	<b>\$ 10,567</b>	<b>\$ 7,830</b>	<b>\$ 5,331</b>	<b>\$ 1,630</b>	<b>\$ 1,178</b>	<b>\$ 94,283</b>	<b>\$ 10,982</b>	<b>\$ 105,265</b>

(Continued)

**Truth Initiative Foundation**

**Statement of Functional Expenses (Continued)  
Year Ended June 30, 2020  
(In Thousands)**

	Program Services							Supporting Services		Total
	Counter-Marketing and Public Education	Communications	Truth Initiative Schroeder Institute	Innovations	Community and Youth Engagement	Program Grants	Other Programs	Total Program Services	General and Administrative	
Program summary:										
Youth/young adult public education	\$ 62,321	\$ 1,844	\$ 2,724	\$ -	\$ 361	\$ 239	\$ 188	\$ 67,677	\$ -	\$ 67,677
Research, policy and practice	125	576	6,511	433	316	667	562	9,190	-	9,190
Engagement, activism and partnerships	607	789	400	27	4,196	656	120	6,795	-	6,795
Operations	819	579	932	811	458	68	308	3,975	10,982	14,957
Innovations	-	87	-	6,559	-	-	-	6,646	-	6,646
<b>Total expenses</b>	<b>\$ 63,872</b>	<b>\$ 3,875</b>	<b>\$ 10,567</b>	<b>\$ 7,830</b>	<b>\$ 5,331</b>	<b>\$ 1,630</b>	<b>\$ 1,178</b>	<b>\$ 94,283</b>	<b>\$ 10,982</b>	<b>\$ 105,265</b>

See notes to financial statements.

## Truth Initiative Foundation

### Statement of Functional Expenses Year Ended June 30, 2019 (In Thousands)

	Program Services							Supporting Services				Total
	Counter-Marketing and Public Education	Communications	Truth Initiative Schroeder Institute	Innovations	Community and Youth Engagement	Program Grants	Other Programs	Total Program Services	General and Administrative	Building Fund 1724 Mass. Ave.	Total Supporting Services	
Salaries and fringe	\$ 3,566	\$ 2,101	\$ 4,306	\$ 3,258	\$ 2,089	\$ 325	\$ 648	\$ 16,293	\$ 6,661	\$ -	\$ 6,661	\$ 22,954
Contract services	55,340	1,717	4,508	385	383	-	169	62,502	56	-	56	62,558
Grants	-	-	20	121	468	1,413	-	2,022	-	-	-	2,022
Travel and lodging	348	88	111	53	332	4	28	964	124	-	124	1,088
Digital promotions	-	39	-	259	1	-	-	299	-	-	-	299
Sponsorship and contributions	10	83	1	104	27	-	1	226	-	-	-	226
Consulting	27	9	12	100	20	-	42	210	49	-	49	259
Meetings, events and conferences	43	59	20	12	69	2	10	215	68	-	68	283
Miscellaneous expense	8	14	11	6	15	-	1	55	325	-	325	380
Dues and subscriptions	35	26	61	3	6	-	41	172	33	-	33	205
Insurance	79	-	-	-	-	-	-	79	289	-	289	368
Computer expense	502	17	33	340	5	-	55	952	237	-	237	1,189
Telephone and wireless services	46	42	14	39	12	2	2	157	239	-	239	396
Depreciation	3	2	-	944	3	-	-	952	798	-	798	1,750
Auditing, accounting and payroll processing	-	-	-	-	-	-	-	-	249	-	249	249
Legal fees	-	-	-	-	-	-	-	-	84	-	84	84
Occupancy	-	-	-	-	-	-	-	-	2,675	-	2,675	2,675
Meals and entertainment	50	11	16	4	94	1	4	180	35	-	35	215
Supplies	1	1	3	1	2	-	-	8	87	-	87	95
Professional development	27	6	11	5	20	-	1	70	55	-	55	125
Printing and publications	1	28	7	8	13	-	-	57	-	-	-	57
Survey incentives	3	-	14	34	6	-	-	57	-	-	-	57
Surveys	-	-	-	3	-	-	-	3	-	-	-	3
Postage and shipping	18	6	1	3	26	1	-	55	7	-	7	62
Equipment rental, repairs and maintenance	-	-	-	-	-	-	-	-	70	-	70	70
Utilities	-	-	-	-	-	-	-	-	33	-	33	33
Temporary services	-	-	-	-	-	-	-	-	21	-	21	21
Study recruitment	-	-	-	3	-	-	-	3	-	-	-	3
Recruitment ads	6	5	7	3	3	-	-	24	10	-	10	34
UBIT payments	-	-	-	-	-	-	-	-	47	-	47	47
Outreach materials	308	4	-	4	259	-	-	575	-	-	-	575
Interest	-	-	-	-	-	-	-	-	1,556	-	1,556	1,556
Building expense	-	-	-	-	-	-	-	-	1,488	258	1,746	1,746
<b>Total expenses</b>	<b>60,421</b>	<b>4,258</b>	<b>9,156</b>	<b>5,692</b>	<b>3,853</b>	<b>1,748</b>	<b>1,002</b>	<b>86,130</b>	<b>15,296</b>	<b>258</b>	<b>15,554</b>	<b>101,684</b>
Overhead allocation	798	466	959	731	460	72	141	3,627	(3,627)	-	(3,627)	-
	<b>\$ 61,219</b>	<b>\$ 4,724</b>	<b>\$ 10,115</b>	<b>\$ 6,423</b>	<b>\$ 4,313</b>	<b>\$ 1,820</b>	<b>\$ 1,143</b>	<b>\$ 89,757</b>	<b>\$ 11,669</b>	<b>\$ 258</b>	<b>\$ 11,927</b>	<b>\$ 101,684</b>

(Continued)

**Truth Initiative Foundation**

**Statement of Functional Expenses (Continued)**  
**Year Ended June 30, 2019**  
**(In Thousands)**

	Program Services							Supporting Services				Total
	Counter-Marketing and Public Education	Communications	Truth Initiative Schroeder Institute	Innovations	Community and Youth Engagement	Program Grants	Other Programs	Total Program Services	General and Administrative	Building Fund 1724 Mass. Ave.	Total Supporting Services	
Program summary:												
Youth/young adult public education	\$ 59,860	\$ 1,927	\$ 3,465	\$ -	\$ 310	\$ 333	\$ 37	\$ 65,932	\$ -	\$ -	\$ -	\$ 65,932
Research, policy and practice	80	624	5,270	664	287	758	788	8,471	-	-	-	8,471
Engagement, activism and partnerships	481	1,460	377	118	3,255	657	126	6,474	-	-	-	6,474
Operations	798	638	1,003	731	461	72	192	3,895	11,669	258	11,927	15,822
Innovations	-	75	-	4,910	-	-	-	4,985	-	-	-	4,985
<b>Total expenses</b>	<b>\$ 61,219</b>	<b>\$ 4,724</b>	<b>\$ 10,115</b>	<b>\$ 6,423</b>	<b>\$ 4,313</b>	<b>\$ 1,820</b>	<b>\$ 1,143</b>	<b>\$ 89,757</b>	<b>\$ 11,669</b>	<b>\$ 258</b>	<b>\$ 11,927</b>	<b>\$ 101,684</b>

See notes to financial statements.

**Truth Initiative Foundation**

**Statements of Cash Flows**  
**Years Ended June 30, 2020 and 2019**  
**(In Thousands)**

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (68,622)	\$ (63,468)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized gain on investments	(21,104)	(13,871)
Other investment gain	(3,394)	(1,628)
Depreciation	1,753	1,805
Gain on sale of 1724 Mass. Ave. building	-	(8,817)
Change in interest rate swap agreement	(4,927)	1,488
Deferred rent	(451)	(405)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest receivable	40	6
Grants receivable	71	95
Prepaid expenses	719	(9)
Trades to be settled	242	(329)
Other assets	227	(286)
Increase (decrease) in:		
Accounts payable and accrued expenses	(726)	(7,245)
Deferred revenue	114	(159)
Refundable advance	2,986	(680)
Other liabilities	(655)	380
<b>Net cash used in operating activities</b>	<b>(93,727)</b>	<b>(93,123)</b>
Cash flows from investing activities:		
Proceeds from sale of 1724 Mass. Ave. building	-	32,384
Purchase of property and equipment	(497)	(259)
Proceeds from sale of investments	268,506	285,357
Purchases of investments	(179,174)	(219,273)
<b>Net cash provided by investing activities</b>	<b>88,835</b>	<b>98,209</b>
Cash flows from financing activities:		
Proceeds from borrowings	3,500	-
<b>Net cash provided by financing activities</b>	<b>3,500</b>	<b>-</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,392)</b>	<b>5,086</b>
Cash and cash equivalents:		
Beginning	122,090	117,004
Ending	\$ 120,698	\$ 122,090
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,921	\$ 1,606
Cash paid for income taxes	\$ 138	\$ 47

See notes to financial statements.

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** In November 1998, a coalition of 46 state attorneys general successfully settled their civil cases with the tobacco companies. As a result, the settling states and the participating tobacco manufacturers entered into two separate settlement agreements: the Master Settlement Agreement (MSA) and the Smokeless Tobacco Master Settlement Agreement (STMSA). The two settlement agreements provided for the establishment and initial funding of a Section 501(c)(3) organization to reduce tobacco usage in the United States. Pursuant to these agreements, an organization named Master Settlement Agreement Foundation (MSA Foundation) was created in March 1999 and was later renamed American Legacy Foundation.

As of August 27, 2015, American Legacy Foundation legally changed its name to Truth Initiative Foundation to reflect its objective to align all organization programs more closely with the truth campaign and consistent with its mission to achieve a culture where all youth and young adults reject tobacco.

Truth Initiative is governed by a Board of Directors, which is comprised of state governors, legislators, attorneys general and experts in the medical, education and public health fields.

Truth Initiative's bylaws set forth its functions as follows:

Carrying out a nationwide sustained advertising and education program to: (a) counter the use by youth of tobacco products; and (b) educate consumers about the cause and prevention of diseases associated with the use of tobacco products.

Developing and disseminating model advertising and education programs to counter the use by youth of substances that are unlawful for the use or purchase by youth, with an emphasis on reducing youth smoking; monitoring and testing the effectiveness of such model programs and, based on the information received from such monitoring and testing, continuing to develop and disseminate revised versions of such model programs, as appropriate.

Developing and disseminating model classroom education programs and curriculum ideas about smoking and substance abuse in the K–12 school system, including specific target programs for special at-risk populations; monitoring and testing the effectiveness of such model programs and ideas and, based on the information received from such model programs or ideas, continuing to develop and disseminate revised versions of such model programs, as appropriate.

Developing and disseminating criteria for the effectiveness cessation program; monitoring and testing the effectiveness of such criteria; and continuing to develop and disseminate revised versions of such criteria, as appropriate.

Commissioning studies, funding research and publishing reports and factors that influence youth smoking and substance abuse, and developing strategies to address the conclusions of such studies and research.

Developing other innovative youth smoking and substance abuse prevention programs.

Providing targeted training and information for parents.

Maintaining a library of Truth Initiative-funded studies, reports and other publications related to the cause and prevention of youth smoking and substance abuse that will be open to the public.

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Tracking and monitoring youth smoking and substance abuse, with a focus on the reason for any increases in or failures to decrease youth smoking and substance abuse, and what actions can be taken to reduce youth smoking and substance abuse.

Receiving, controlling and managing contributions and funds provided by other entities for further purposes described in Truth Initiative's certificate of incorporation.

Truth Initiative is organized around its four primary program goals: (i) youth/young adult public education (primarily through the truth<sup>®</sup> anti-tobacco counter-marketing campaign), (ii) research policy and practice including the activity of Truth Initiative's evaluation science research function and its Schroeder Institute for Tobacco Research and Policy Studies, (iii) community and youth engagement activities including our youth activism program and (iv) using innovative digital tools to design, build and market effective and scalable approaches to smoking cessation. Truth Initiative also has an operations function for administration, fiscal, legal, technology and personnel activities.

A related party, M Street Holdings, LLC (the Company), was previously consolidated with Truth Initiative during the year ended June 30, 2018 and is no longer consolidated with Truth Initiative. See Note 10.

A summary of Truth Initiative's significant accounting policies follows:

**Basis of accounting:** The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

**Basis of presentation:** The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Non-Profit Entities Topic of the Codification, Truth Initiative is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Truth Initiative had no net assets with donor restrictions at June 30, 2020 and 2019.

**Cash and cash equivalents:** For purposes of the statements of cash flows, Truth Initiative considers all short-term, highly liquid debt instruments to be cash equivalents, including money market funds and repurchase agreements purchased with an original maturity of three months or less.

**Financial risk:** Truth Initiative maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Truth Initiative has not experienced any losses in such accounts. Truth Initiative believes it is not exposed to any significant financial risk on cash. Truth Initiative invests in various equities and alternative investments. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

**Securities transactions, interest and dividends:** Securities transactions are recorded on a trade-date basis and are carried at their fair value. Realized gains and losses on securities transactions are determined on a specific identification basis and are included in investment income, net of fees, in the accompanying statements of activities. The change in the fair value of investments is also included in investment income, net of fees, in the accompanying statements of activities. Interest income is recognized under the accrual basis. Dividend income is recognized on the ex-dividend date.

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Valuation of investments and cash equivalents:** Investments are presented in the financial statements at fair value in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Mutual funds, U.S. stocks and global stocks consist of investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation; other securities traded on the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price, except for short sales positions and call options written, for which the last quoted asked price is used.

Truth Initiative considers repurchase agreements, money market funds, the State Street Institutional Reserves Fund and deposits held at a futures broker to be cash equivalents based on the short maturity and liquidity of the assets. Accordingly, Truth Initiative's management utilizes the dollar per unit price provided by the custodian of the assets as a basis for the fair value assessment.

Investments in commingled/common trust funds, hedge funds, private equity funds and private equity fund of funds are valued at fair value based on the applicable percentage ownership of the underlying fund/partnerships' net assets as of the measurement date, as provided by the fund managers. The underlying investment funds/partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment funds/partnerships, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective funds and investment partnerships and may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of Truth Initiative's investments in funds and investment partnerships generally represents the amount Truth Initiative would expect to receive if it were to liquidate its investment in the other investment partnerships, excluding any redemption charges that may apply.

The fund managers of underlying funds and investment partnership funds in which Truth Initiative invests may utilize derivative instruments with off-balance-sheet risk. Truth Initiative's exposure to risk is limited to the amount of its investment.

**Financial instruments with off-balance-sheet risk:** In connection with its trading activities, Truth Initiative enters into transactions involving a variety of securities and derivative financial instruments. These derivative financial instruments may have market and/or credit risk in excess of the amounts recorded in the balance sheets.

**Market risk:** Market risk arises primarily from changes in the market value of financial instruments. Theoretically, Truth Initiative's exposure is equal to the notional value of contracts purchased and unlimited on such contracts sold short.

Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease Truth Initiative's overall exposure to market risk. Truth Initiative attempts to control its exposure to market risk through various analytical monitoring techniques.

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Concentrations of credit risk:** Truth Initiative is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, Truth Initiative may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is Truth Initiative's policy to review, as necessary, the credit standing of each counterparty.

In the normal course of its business, Truth Initiative enters into contracts and agreements with certain service providers, such as clearing and custody agents, trustees and administrators that contain a variety of representations and warranties and which provide general indemnifications and guarantees against specified potential losses in connection with their activities as an agent of, or providing services to, Truth Initiative. Truth Initiative's maximum exposure under these agreements is unknown, as this may involve future claims that could be made against Truth Initiative and have not yet occurred. Truth Initiative expects the risk of any future obligation under these arrangements to be remote and has not recorded any contingent liability in the financial statements for these indemnifications.

**Property and equipment:** Truth Initiative capitalizes all property and equipment and buildings purchased with a cost of \$5 or more at cost and depreciates them using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39½ years. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the related lease terms. Truth Initiative expenses preliminary project stage costs as incurred. Capitalized application stage software costs are amortized over three years using the straight-line method. Post-implementation and operation stage costs are expensed as incurred.

**Valuation of long-lived assets:** Truth Initiative reviews 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 the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

**Interest rate swap agreement and hedging activities:** The interest rate swap agreement was carried at fair value. The fair value of the interest rate swap agreement was the estimated amount that the financial institution would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

**Income taxes:** Truth Initiative is generally exempt from federal income tax under Internal Revenue Code (IRC) Section 501(c)(3). In addition, Truth Initiative has been classified as an organization that is not a private foundation. Income which is not related to its exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

Truth Initiative follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, Truth Initiative may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest, penalties on income taxes and accounting in interim periods.

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Management evaluated Truth Initiative's tax positions and concluded that Truth Initiative had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the guidance for accounting for uncertainty in income taxes.

**Allocation of expenses:** The costs of providing the program and supporting services have been summarized on a functional basis in the accompanying statements of activities. Expenses are either directly charged to program services as incurred or proportionately allocated to functional categories, based on various allocation methods. Certain management and staff expenses have been allocated to programs on the basis of time spent. Other expenses have been allocated to programs on a percentage basis.

**Revenue recognition:** Unconditional contributions received are recorded as increases in net assets with or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**Use of estimates:** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Adopted accounting pronouncement:** In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist 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. The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified prospective basis, although retrospective application is permitted. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. Entities should apply the amendments for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019. This ASU was adopted by Truth Initiative during the year ended June 30, 2020.

**Upcoming accounting pronouncements:** In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 one year. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, further delaying the effective date an additional year, making it effective for annual reporting periods beginning after December 15, 2019. Truth Initiative has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. During November 2019, the FASB issued ASU 2019-10, *Leases (Topic 842) Effective Dates*, which delayed the effective date of ASU 2016-02 by one year. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, further delaying the effective date an additional year, making it effective for annual reporting periods beginning after December 15, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Truth Initiative is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. Truth Initiative is currently evaluating the impact of this new standard on its financial statements.

**Subsequent events:** Truth Initiative evaluated subsequent events through September 28, 2020, which is the date the financial statements were available to be issued.

#### Note 2. Investments

Investments at June 30, 2020 and 2019 consist of the following:

	2020	2019
Mutual funds	\$ 93,428	\$ 111,979
U.S. stocks	88,333	116,553
Global stocks	25,776	26,586
Fixed income bonds	15,925	10,820
Other investments measured at net asset value:		
Commingled/common trust funds	154,860	188,103
Hedge funds	66,407	73,721
Private equity funds	213,444	129,712
Private equity fund of funds	-	110,830
Other	69,306	24,009
	<u>\$ 727,479</u>	<u>\$ 792,313</u>

**Truth Initiative Foundation**

**Notes to Financial Statements  
(In Thousands)**

**Note 2. Investments (Continued)**

Investment income for the years ended June 30, 2020 and 2019, consists of the following:

	2020	2019
Interest, dividends and accretion income	\$ 12,096	\$ 14,193
Realized gain on investments	38,110	69,607
Unrealized loss on investments	(17,006)	(55,736)
Other investment gain	3,394	1,628
Investment fees	(4,057)	(4,785)
Total investment income	<u>\$ 32,537</u>	<u>\$ 24,907</u>

Alternative investments are less liquid than Truth Initiative's other investments. The following tables set forth additional disclosures of Truth Initiative's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2020 and 2019.

	As of June 30, 2020			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled/common trust funds (a):				
Emerging markets	\$ 48,959	\$ -	Daily, monthly	3-90 days
Global developed market	42,285	-	Monthly	10 days
U.S. small cap	18,557	-	Monthly	10 days
Global emerging market	23,130	-	Monthly	7 days
U.S. large cap	21,929	-	Daily	3 days
	<u>154,860</u>	<u>-</u>		
Hedge funds:				
Semi-liquid credit (d)	2,397	-	Semi-annually	90 days
Multi-strategy (c)	44,724	-	Monthly, semi-annually	3-60 days
Long/short (b)	19,286	-	Quarterly, annually	45-60 days
	<u>66,407</u>	<u>-</u>		
Private equity funds:				
Real estate (h)	43,554	20,009	Longer than one year	Not applicable
Private energy (h)	30,365	3,463	Longer than one year	Not applicable
Private debt (g)	28,905	26,438	Longer than one year	Not applicable
Venture/buyout (f)	110,620	25,582	Longer than one year	Not applicable
	<u>213,444</u>	<u>75,492</u>		
Other (e)	69,306	-	Longer than one year	Not applicable
	<u>\$ 504,017</u>	<u>\$ 75,492</u>		

Truth Initiative Foundation

Notes to Financial Statements  
(In Thousands)

Note 2. Investments (Continued)

	As of June 30, 2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled/common trust funds (a):				
Emerging markets	\$ 56,777	\$ -	Daily, monthly	3-90 days
Global developed market	47,135	-	Monthly	10 days
U.S. small cap	29,530	-	Monthly	10 days
Global emerging market	24,375	-	Monthly	7 days
Commodities	1	-	Daily	Daily
U.S. large cap	24,586	-	Daily	3 days
Other	5,699	-	Monthly	60 days
	<u>188,103</u>	<u>-</u>		
Hedge funds:				
Semi-liquid credit (d)	3,595	-	Semi-annually	90 days
Multi-strategy (c)	50,604	-	Monthly, semi-annually	3-60 days
Long/short (b)	19,522	-	Quarterly, annually	45-60 days
	<u>73,721</u>	<u>-</u>		
Private equity funds:				
Real estate (h)	40,249	19,665	Longer than one year	Not applicable
Private energy (h)	31,866	1,903	Longer than one year	Not applicable
Private debt (g)	29,508	4,548	Longer than one year	Not applicable
Venture/buyout (f)	28,089	6,074	Longer than one year	Not applicable
	<u>129,712</u>	<u>32,190</u>		
Private equity funds of funds:				
Venture/buyout (f)	87,286	17,662	Longer than one year	Not applicable
Private debt (g)	3,843	750	Longer than one year	Not applicable
Real estate (h)	9,853	4,000	Longer than one year	Not applicable
Private energy (h)	9,848	2,100	Longer than one year	Not applicable
	<u>110,830</u>	<u>24,512</u>		
Other (e)	24,009	-	Longer than one year	Not applicable
	<u>\$ 526,375</u>	<u>\$ 56,702</u>		

Investment strategies of trusts, hedge fund and other funds are as follows:

- (a) **Common trust funds/commingled funds:** This category invests in common trust funds and commingled funds, which pursue a variety of investment strategies. The fair value of investments in this category has been estimated using an equivalent to a NAV per share and is available to be redeemed at that value.
- (b) **Hedge fund – long/short:** The funds within this category invest in both long and short in various domestic and international common stocks. Approximately 2% and 8% of the value of the category at June 30, 2020 and 2019, respectively, can be redeemed on an annual basis with 45 days' notice. The remaining 98% and 96% of the value of this category can be redeemed on a quarterly basis with 60 days' notice at June 30, 2020 and 2019, respectively. The fair value of investment in this category has been estimated using the NAV per share of the investment.

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 2. Investments (Continued)

- (c) **Hedge fund – multi-strategy:** The funds within this category pursue multiple strategies to diversify risk and reduce volatility. Approximately 62% and 69% of the value of category at June 30, 2020 and 2019, respectively, can be redeemed on a monthly basis with three days' notice. The remaining 38% and 31% of the value of this category can be redeemed on a semiannual basis with 60 days' notice at June 30, 2020 and 2019, respectively. The fair value of investment in this category has been estimated using the NAV per share of the investment.
- (d) **Hedge fund – semi-liquid credit:** This category includes an investment in a hedge fund that seeks to generate superior risk-adjusted returns by investing in a broad array of securities within the leveraged finance marketplace. This investment represents one class of shares, which is available to be redeemed annually on the anniversary date of the initial investment. The fair value of investment in this category has been estimated using the NAV per share of the investment.
- (e) **Other:** This category includes an emerging income fund that seeks long-term capital appreciation by investing in and holding a diversified portfolio of revenue-producing intellectual property assets and royalty interests. The fund allows redemption to the extent that there is surplus cash available and is subject to fund management's discretion.

The following categories include various private equity funds and private equity fund of funds. These investments can never be redeemed with the funds. Instead, the nature of the investments in these categories is that distributions are received through the liquidation of the underlying assets of the fund. As of June 30, 2020 and 2019, it is probable that the investments in these categories will be liquidated at an amount different from the net asset value of the Truth Initiative's ownership interest in partners' capital. Therefore, the fair value of the investments in this category has been estimated using recent observable transaction information received from potential buyers of the investments. It is estimated that the underlying assets of the funds within these categories would be liquidated over five to ten years.

The investment strategies of the funds within these categories are summarized as follows:

- (f) **Private equity and private equity fund of funds – venture/buyout:** This category includes several private equity funds pursuing venture and/or buyout strategies to generate investment returns.
- (g) **Private equity and private equity fund of funds – private debt:** This category includes several private equity funds focusing on private debt. The investment strategies of these funds focus on debt securities of companies undergoing financial distress, operating difficulties and significant restructuring and on acquiring eligible assets, which include certain commercial mortgage-backed securities and non-agency residential mortgage-backed securities, under the Public-Private Investment Partnership, which seeks to unlock frozen credit markets and expand lending activity.
- (h) **Private equity and private equity fund of funds – private energy and real estate:** These categories invest in various private equity funds focused on generating gains through investments in real assets, specifically real assets within the private energy sector and real estate ventures.

**Truth Initiative Foundation**

**Notes to Financial Statements  
(In Thousands)**

**Note 3. Property and Equipment**

Property and equipment and accumulated depreciation at June 30, 2020, and depreciation expense for the year ended June 30, 2020, consist of the following:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and fixtures	7 years	\$ 1,414	\$ 952	\$ 462	\$ 202
Computers and software	3 years	263	237	26	20
Office equipment	5 years	884	836	48	180
Leasehold improvements	11½ years	4,377	1,859	2,518	391
Intangible assets	3 years	4,883	4,222	661	958
Assets in progress	N/A	57	-	57	-
Vehicles	5 years	439	412	27	2
		<u>\$ 12,317</u>	<u>\$ 8,518</u>	<u>\$ 3,799</u>	<u>\$ 1,753</u>

Property and equipment and accumulated depreciation at June 30, 2019, and depreciation expense for the year ended June 30, 2019, consist of the following:

	Estimated Useful Lives	Cost	Accumulated Depreciation	Net	Depreciation Expense
Furniture and fixtures	7 years	\$ 1,414	\$ 750	\$ 664	\$ 202
Computers and software	3 years	225	217	8	34
Office equipment	5 years	884	656	228	181
Leasehold improvements	11½ years	4,360	1,468	2,892	389
Intangible assets	3 years	4,527	3,264	1,263	944
Vehicles	5 years	410	410	-	-
		<u>11,820</u>	<u>6,765</u>	<u>5,055</u>	<u>1,750</u>
1724 Mass. Ave.:					
Building and improvements	39½ years	-	-	-	55
		<u>-</u>	<u>-</u>	<u>-</u>	<u>55</u>
		<u>\$ 11,820</u>	<u>\$ 6,765</u>	<u>\$ 5,055</u>	<u>\$ 1,805</u>

**Note 4. Interest Rate Swap Agreement**

Relating to a previous bond transaction, which was paid in full on July 21, 2015, Truth Initiative entered into an interest rate swap agreement. Truth Initiative has recognized a liability in the amount of \$4,927 in the balance sheets at June 30, 2019, and the related unrealized loss of \$1,488 in building expenses in the statements of activities for the year ended June 30, 2019. On July 30, 2019, Truth Initiative settled the interest rate swap for \$4,998.

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 5. Leases

During the year ended June 30, 2015, Truth Initiative signed a new lease for 33,216 square feet of office space (new headquarters), which commenced on September 1, 2015, at a base rate of \$52.75 per square foot. The lease term is 135 months and includes a 15-month rent abatement, annual rent escalations and an improvement allowance. These benefits and escalations are recognized on a straight-line basis over the life of the lease. The unrecognized portions are reflected as deferred rent on the accompanying balance sheets. Truth Initiative's share of real estate taxes and operating costs are determined annually.

Future minimum lease payments to be paid under the operating lease are as follows:

Years ending June 30:	
2021	\$ 1,974
2022	2,024
2023	2,074
2024	2,126
2025	2,179
Thereafter	3,182
	<u>\$ 13,560</u>

Rent expense amounted to \$2,756 and \$2,675 for the years ended June 30, 2020 and 2019, respectively.

#### Note 6. Retirement Plans

Truth Initiative maintains an employee 401(k) savings plan. Employees who are at least 21 years of age are eligible for enrollment and participation in the first month following the completion of 180 days of employment. Truth Initiative contributes 15% of the base compensation for each employee. Participants may elect to defer their compensation subject to statutory limitations of the Internal Revenue Service.

Expenses related to the retirement plan amounted to \$2,196 and \$2,046 for the years ended June 30, 2020 and 2019, respectively.

Truth Initiative has established a deferred compensation plan to provide certain eligible employees the ability to defer a portion of their compensation to provide supplemental retirement benefits under IRC §457. The plan is funded entirely from the compensation of the participants and vested with the employees immediately. At June 30, 2020 and 2019, participants in the 457(b) plan had deferred balances, including income earned, totaling \$916 and \$783, respectively.

Truth Initiative has established a second deferred compensation plan to provide certain eligible employees the ability to defer a portion of their compensation to provide supplemental retirement benefits under IRC §457. The plan is funded entirely from the compensation of the participants and the participants will become fully vested on January 1, 2020, with forfeiture if employment ends either voluntarily or involuntarily before this date. At June 30, 2020 and 2019, participants in the 457(f) plan had deferred balances, including income earned, totaling \$0 and \$788, respectively.

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

---

#### **Note 7. Fair Value Measurements**

The Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Truth Initiative utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

- Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and listed derivatives. As required by the guidance provided by the Codification, Truth Initiative does not adjust the quoted price for these investments, even in situations where Truth Initiative holds a large position and a sale could reasonably impact the quoted price.
- Level 2:** Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.
- Level 3:** Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

**Truth Initiative Foundation**

**Notes to Financial Statements  
(In Thousands)**

**Note 7. Fair Value Measurements (Continued)**

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of June 30, 2020:

	Total	Level 1	Level 2
<b>Assets:</b>			
Cash equivalents:			
Repurchase agreements	\$ 63,631	\$ 63,631	\$ -
Money market funds	29,640	29,640	-
Total cash equivalents	<u>93,271</u>	<u>93,271</u>	<u>-</u>
Investments:			
Mutual funds:			
Global small/mid value	31,864	31,864	-
Fixed income	30,725	30,725	-
Emerging markets	18,107	18,107	-
Real estate	12,732	12,732	-
	<u>93,428</u>	<u>93,428</u>	<u>-</u>
U.S. stocks:			
Large cap	55,093	55,093	-
Small cap	33,240	33,240	-
	<u>88,333</u>	<u>88,333</u>	<u>-</u>
Global stocks – developed markets	25,776	25,776	-
Fixed income bonds	15,925	-	15,925
Other investments measured at net asset value (a)	504,017	-	-
Total investments	<u>727,479</u>	<u>207,537</u>	<u>15,925</u>
Total investment assets and cash equivalents held at fair value	<u>\$ 820,750</u>	<u>\$ 300,808</u>	<u>\$ 15,925</u>
<b>Liabilities:</b>			
Deferred compensation obligation	\$ 916	\$ -	\$ 916
Total liabilities	<u>\$ 916</u>	<u>\$ -</u>	<u>\$ 916</u>

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

#### Note 7. Fair Value Measurements (Continued)

The table below presents the balance of assets measured at fair value on a recurring basis by level within the hierarchy as of June 30, 2019:

	Total	Level 1	Level 2
<b>Assets:</b>			
Cash equivalents:			
Repurchase agreements	\$ 46,846	\$ -	\$ 46,846
Money market funds	28,224	-	28,224
Total cash equivalents	75,070	-	75,070
Investments:			
Mutual funds:			
Global small/mid value	41,729	41,729	-
Fixed income	32,716	32,716	-
Emerging markets	20,014	20,014	-
Real estate	17,520	17,520	-
	111,979	111,979	-
U.S. stocks:			
Large cap	74,684	74,684	-
Small cap	22,902	22,902	-
Mid cap	18,967	18,967	-
	116,553	116,553	-
Global stocks – developed markets	26,586	26,586	-
Fixed income bonds	10,820	-	10,820
Other investments measured at net asset value (a)	-	-	-
Total investments	265,938	255,118	10,820
Total investment assets and cash equivalents held at fair value	\$ 341,008	\$ 255,118	\$ 85,890
<b>Liabilities:</b>			
Deferred compensation obligation	\$ 1,571	\$ -	\$ 1,571
Liability on interest rate swap agreement	4,927	-	4,927
Total liabilities	\$ 6,498	\$ -	\$ 6,498

(a) In accordance with the Fair Measurements topic, certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

Truth Initiative assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with Truth Initiative's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no transfers among Levels 1, 2 and 3 during the year.

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 8. Commitments and Contingencies

**Contingency:** Truth Initiative participates in federally-assisted grant programs that are subject to financial and compliance audits by the federal agencies or their representative. As such, there exists a contingent liability for potential questioned costs that may result from such an audits. Management does not anticipate any significant adjustments as a result of such audits.

From time to time, Truth Initiative may be subject to various legal proceedings, which are incidental to the ordinary course of business. In the opinion of the management of Truth Initiative, there are no material pending legal proceedings to which Truth Initiative is a party.

**Line of credit:** Truth Initiative maintains a \$60,000 line of credit with a financial institution, which matures on September 30, 2022. As of and after September 30, 2019, any amounts drawn on the line will bear interest at a fixed rate of 3.50%. Interest is payable monthly with the full remaining principle due at maturity. Interest incurred on the note was \$1,877 and \$1,095 for the years ended June 30, 2020 and 2019, respectively. At June 30, 2020 and 2019, there were outstanding draws of \$60,000, which is shown with loan payable on the balance sheets. At June 30, 2020 and 2019, all covenants for the line were met. Total interest expense on the line of credit and other debt amounted to \$1,921 and \$1,606 for the years ended June 30, 2020 and 2019, respectively.

**Loan payable:** As part of the Coronavirus Aid, Relief, and Economic Security Act, Truth Initiative applied and was approved for a forgivable loan through the Small Business Administration Paycheck Protection Program (PPP). Under the PPP, Truth Initiative obtained a loan of \$3,500, which is shown with loan payable on the balance sheets, bearing interest at 1%. Originally, Truth Initiative was required to make monthly payments of principal and interest starting on November 1, 2020, with any remaining principal and interest due at maturity on April 22, 2022. As part of the PPP Flexibility Act, the monthly principal and interest were further deferred and a new date has not been assigned. Interest continues to accrue during the additional deferral period. The amount of forgiveness can be up to the full principal amount of the loan and any accrued interest if it is appropriately used for eligible expenses. Truth Initiative has accounted for the loan under FASB Accounting Standards Codification Topic 470, Debt.

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

---

#### Note 9. Liquidity and Availability of Financial Assets

Truth Initiative regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2020	2019
Cash and cash equivalents	\$ 120,698	\$ 122,090
Investments	727,479	792,313
Accrued interest receivable	241	281
Grants receivable	176	247
Accounts receivable	190	112
Trades to be settled	111	353
Financial assets at year-end	<u>848,895</u>	<u>915,396</u>
Less those unavailable for general expenditure within one year due to:		
Contractual restrictions:		
Investments held with redemptions periods longer than one year	(282,750)	(264,551)
Unfunded investment commitments	(75,492)	(56,702)
Deferred compensation obligations	(916)	(1,571)
	<u>(359,158)</u>	<u>(322,824)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 489,737</u>	<u>\$ 592,572</u>

Truth Initiative has various sources of liquidity at its disposal, including cash and cash equivalents, investments, receivables, and line of credit. See Note 8 for information about Truth Initiative's lines of credit. As part of liquidity management, Truth Initiative invests cash in excess of daily requirements in investments. Truth Initiative regularly assesses its operating budget and cash flow projections to monitor the availability of resources to support operations.

#### Note 10. Related Party

The Company described in Note 1 is a single-member, limited liability company (LLC) and, as such, is a disregarded entity for federal income tax purposes, pursuant to Section 7701 of the IRC. The Company has been dormant since June 30, 2017, and consequently had no activity during the years ended June 30, 2020 and 2019 and therefore is not consolidated in these audited financial statements.

## Truth Initiative Foundation

### Notes to Financial Statements (In Thousands)

---

#### **Note 11. Subsequent Events**

Subsequent to the coronavirus outbreak in 2020 in North America, there has been substantial volatility in financial markets and the economy. The coronavirus and actions to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets, including the geographical areas in which Truth Initiative operates.

While it is unknown how long these conditions will last and what the complete financial effect will be to Truth Initiative, to date, Truth Initiative has not experienced any significant disruptions to its business, loss of customers or decrease in revenues. However, it could have a negative impact to operations, the extent to which will depend on future developments, which are highly uncertain and cannot be predicted, and as such cannot be determined.