

**PRISON FELLOWSHIP MINISTRIES AND
AFFILIATE**

**AUDITED CONSOLIDATED FINANCIAL
STATEMENTS**

YEARS ENDED JUNE 30, 2020 AND 2019

Prison Fellowship Ministries and Affiliate

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Independent Auditor's Report

Board of Directors
Prison Fellowship Ministries and Affiliate
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We have audited the accompanying consolidated financial statements of **Prison Fellowship Ministries and Affiliate** (a nonprofit organization), which comprise the Consolidated Statements of Financial Position as of June 30, 2020 and 2019, and the related Consolidated Statements of Activities and Changes in Net Assets, 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

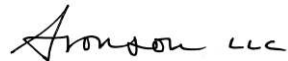
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Prison Fellowship Ministries and Affiliate** as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Rockville, Maryland
September 28, 2020

Prison Fellowship Ministries and Affiliate

Consolidated Statements of Financial Position (\$ in Thousands)

<i>June 30</i>	2020	2019
Assets		
Cash and cash equivalents	\$ 5,608	\$ 3,597
Investments		
Cash and cash equivalents held for long-term use	2,377	4,287
Investments	18,243	15,980
Assets held in charitable remainder trusts	181	189
Total investments	20,801	20,456
Contributions receivable, net	3,054	3,926
Program advances and other receivables	1,321	959
Prepaid expenses and other assets	370	323
Inventory of publications and supplies	693	485
Beneficial interest in trusts	780	784
Cash surrender value of life insurance policies	117	108
Property, buildings and equipment, net	14,933	15,343
Total assets	\$ 47,677	\$ 45,981
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 2,380	\$ 3,311
Accrued salaries and benefits	1,419	1,162
Deferred revenue	47	79
Refundable advances	3,466	-
Capital lease obligation	44	62
Annuities payable	3,097	3,412
Liability under trust agreements	62	55
Total liabilities	10,515	8,081
Net assets		
Without donor restrictions	20,422	20,082
With donor restrictions	16,740	17,818
Total net assets	37,162	37,900
Total liabilities and net assets	\$ 47,677	\$ 45,981

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Prison Fellowship Ministries and Affiliate

Consolidated Statement of Activities and Changes in Net Assets (\$ in Thousands)

<i>For the Year Ended June 30, 2020</i>	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	\$ 28,459	\$ 14,516	\$ 42,975
Other revenue	885	-	885
In-kind contributions	797	-	797
Net assets released from restrictions	15,528	(15,528)	-
Total support and revenue	45,669	(1,012)	44,657
Expenses			
Program services:			
Program ministry	26,635	-	26,635
Public education	4,140	-	4,140
International prison ministry	724	-	724
Total program services	31,499	-	31,499
Supporting services:			
Management and general	4,411	-	4,411
Fundraising	9,444	-	9,444
Total supporting services	13,855	-	13,855
Total expenses	45,354	-	45,354
Change in net assets from operations	315	(1,012)	(697)
Investment return, net	86	(46)	40
Change in value of split-interest agreements	(61)	(20)	(81)
Change in net assets	340	(1,078)	(738)
Net assets, beginning of year	20,082	17,818	37,900
Net assets, end of year	\$ 20,422	\$ 16,740	\$ 37,162

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Prison Fellowship Ministries and Affiliate

Consolidated Statement of Activities and Changes in Net Assets (\$ in Thousands)

<i>For the Year Ended June 30, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	\$ 26,610	\$ 13,315	\$ 39,925
Other revenue	1,236	-	1,236
In-kind contributions	330	-	330
Gain on sale and disposal of property	3	-	3
Net assets released from restrictions	11,090	(11,090)	-
Total support and revenue	39,269	2,225	41,494
Expenses			
Program services:			
Program ministry	25,863	-	25,863
Public education	3,941	-	3,941
International prison ministry	720	-	720
Total program services	30,524	-	30,524
Supporting services:			
Management and general	3,876	-	3,876
Fundraising	8,409	-	8,409
Total supporting services	12,285	-	12,285
Total expenses	42,809	-	42,809
Change in net assets from operations	(3,540)	2,225	(1,315)
Investment return, net	688	265	953
Change in value of split-interest agreements	(6)	10	4
Change in net assets	(2,858)	2,500	(358)
Net assets, beginning of year	22,940	15,318	38,258
Net assets, end of year	\$ 20,082	\$ 17,818	\$ 37,900

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Prison Fellowship Ministries and Affiliate

Consolidated Statement of Functional Expenses (\$ in Thousands)

<i>For the Year Ended June 30, 2020</i>	Program Services				Supporting Services			
	Program Ministry	Public Education	International Prison Ministry	Total	Management and General	Fundraising	Total	Total
Salaries and related expenses	\$ 16,398	\$ 2,035	\$ 23	\$ 18,456	\$ 2,918	\$ 1,671	\$ 4,589	\$ 23,045
Other expenses								
Consulting	473	42	-	515	33	41	74	589
Donations	1,555	9	700	2,264	8	8	16	2,280
Materials and supplies	3,239	33	-	3,272	35	14	49	3,321
Occupancy	268	39	-	307	86	30	116	423
Other	643	62	-	705	340	55	395	1,100
Postage	746	333	-	1,079	68	1,492	1,560	2,639
Printing	229	468	-	697	71	1,928	1,999	2,696
Professional fees	846	897	1	1,744	592	4,010	4,602	6,346
Repair and maintenance	76	11	-	87	26	10	36	123
Telephone	269	26	-	295	23	20	43	338
Travel	1,286	119	-	1,405	58	112	170	1,575
Total other expenses	9,630	2,039	701	12,370	1,340	7,720	9,060	21,430
Depreciation and amortization	607	66	-	673	153	53	206	879
Total expenses	\$ 26,635	\$ 4,140	\$ 724	\$ 31,499	\$ 4,411	\$ 9,444	\$ 13,855	\$ 45,354

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Prison Fellowship Ministries and Affiliate

Consolidated Statement of Functional Expenses (\$ in Thousands)

<i>For the Year Ended June 30, 2019</i>	Program Services				Supporting Services			
	Program Ministry	Public Education	International Prison Ministry	Total	Management and General	Fundraising	Total	Total
Salaries and related expenses	\$ 16,014	\$ 1,671	\$ 18	\$ 17,703	\$ 2,631	\$ 1,679	\$ 4,310	\$ 22,013
Other expenses								
Consulting	524	56	-	580	34	59	93	673
Donations	1,319	-	700	2,019	13	4	17	2,036
Materials and supplies	2,720	52	-	2,772	50	27	77	2,849
Occupancy	301	33	-	334	112	30	142	476
Other	564	62	-	626	235	77	312	938
Postage	708	327	-	1,035	39	1,349	1,388	2,423
Printing	123	483	-	606	33	1,630	1,663	2,269
Professional fees	847	989	1	1,837	375	3,318	3,693	5,530
Repair and maintenance	114	20	-	134	41	16	57	191
Telephone	315	30	-	345	24	23	47	392
Travel	1,684	161	1	1,846	97	140	237	2,083
Total other expenses	9,219	2,213	702	12,134	1,053	6,673	7,726	19,860
Depreciation and amortization	630	57	-	687	192	57	249	936
Total expenses	\$ 25,863	\$ 3,941	\$ 720	\$ 30,524	\$ 3,876	\$ 8,409	\$ 12,285	\$ 42,809

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Prison Fellowship Ministries and Affiliate

Consolidated Statements of Cash Flows (\$ in Thousands)

<i>For the Years Ended June 30,</i>	2020	2019
Cash flows from operating activities		
Change in net assets	\$ (738)	\$ (358)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	879	936
Change in contributions receivable discount and allowance	25	25
Contributed securities	(217)	6
Realized and unrealized loss (gain) on investments	408	(448)
Actuarial loss on annuity obligations	68	16
Gain on sale and disposal of property	-	(3)
Change in cash surrender value of life insurance policies	(9)	(8)
(Increase) decrease in:		
Contributions receivable	847	(499)
Program advances and other receivables	(362)	492
Prepaid expenses and other assets	(47)	(19)
Inventory of publications and supplies	(208)	11
Beneficial interest in trusts	4	174
Increase (decrease) in:		
Accounts payable and accrued expenses	(931)	(451)
Accrued salaries and benefits	257	80
Deferred revenue	(32)	60
Liability under trust agreements	7	(11)
Net cash (used) provided by operating activities	(49)	3
Cash flows from investing activities		
Acquisitions of property and equipment	(469)	(376)
Proceeds from sale of investments	8,685	13,171
Purchase of investments	(11,131)	(9,935)
Net cash (used) provided by investing activities	(2,915)	2,860
Cash flows from financing activities		
Proceeds from refundable advances	3,466	-
Proceeds from annuity agreements	68	62
Payment of annuity obligations	(451)	(549)
Payment of capital lease obligation	(18)	(17)
Net cash provided (used) in financing activities	3,065	(504)

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Prison Fellowship Ministries and Affiliate

Consolidated Statements of Cash Flows (continued) (\$ in Thousands)

<i>For the Years Ended June 30,</i>	2020	2019
Net change in cash and cash equivalents	101	2,359
Cash, cash equivalents, and restricted cash, beginning of year	7,884	5,525
Cash, cash equivalents, and restricted cash, end of year	\$ 7,985	\$ 7,884
Noncash investing transactions		
Net unsettled (sales) purchases of investment securities	\$ 38	\$ (7)

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

1. Organization and significant accounting policies

Organization: Prison Fellowship Ministries (“PFM”), a corporation organized under the laws of the District of Columbia, is a not-for-profit organization founded in 1976.

PFM is a national Christian nonprofit organization serving prisoners, former prisoners, and their families, and a leading advocate for restorative criminal justice reform. PFM staff and volunteers are in correctional facilities sharing the Gospel, spreading hope, and teaching life-changing classes. Through our evangelism events, we introduce incarcerated men and women to a new future in Christ and nurture their spiritual growth with Bible studies and Christian leadership training. We also offer a holistic set of life-skills classes and intensive, evidence-based Prison Fellowship Academies, open to participants of any faith or no faith, to address the roots of criminal behavior and prepare men and women to be positive, peaceful members of their communities—whether inside or outside of prison. As a result, we are seeing prisoners use their sentences as a time to grow, change, and find a new, positive life path with PFM staff and volunteers as their guides. PFM also trains wardens to create a more constructive prison culture that facilitates the moral rehabilitation of prisoners. In the community, PFM recruits, trains, and equips churches that participate in the Angel Tree program, which provides a pathway for incarcerated parents to restore and strengthen their relationships with their children and families. To help returning citizens, PFM works to create a culture of second chances for people with a criminal history, and connects those who have participated in our in-prison programs with local churches and other community resources that assist with community re-integration.

PFM is a publicly supported organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”). PFM also performs ministry through one other related not-for-profit operating entity organized as a Virginia non-stock corporation:

- Prison Fellowship Ministries Foundation (“PFMF”), which manages and administers planned giving programs to support Prison Fellowship Ministries. In addition, PFMF owns property in Lansdowne, Virginia used by Prison Fellowship Ministries as office space.

Prison Fellowship Ministries has control over the PFMF board of directors and provides PFMF with administrative and monetary support.

The consolidated financial statements presented here include the accounts of Prison Fellowship Ministries and PFMF (together, the “Organization,” the “Ministry,” and/or “PFM”). All significant intercompany transactions have been eliminated in consolidation.

Funding for PFM is obtained primarily from private contributors.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Basis of accounting: PFM maintains its records using the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

Financial statement presentation: Net assets and support are classified based on the existence or absence of donor-imposed restrictions and reported as follows:

Net assets without donor restrictions – net assets that are not subject to donor-imposed stipulations.

As of June 30, 2020 and 2019, net assets without donor restrictions included \$60 and \$70 of donor advised funds, respectively. These funds are unrestricted by the donor, but have been earmarked by the PFMF Board for the purpose of issuing grants. The balance of the board designed operating reserve totaled \$2,158 and \$4,064 as of June 30, 2020 and 2019, respectively.

Net assets with donor restrictions – net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Consolidated Statements of Activities and Changes in Net Assets.

Cash and cash equivalents: PFM considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash and cash equivalents. PFM maintains cash balances that may exceed federally insured limits at certain times during the year, but does not believe that this results in any significant credit risk.

Cash and cash equivalents held for long-term use: Represent donor-restricted and board-designated amounts to be held for long-term purposes.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

The following is a reconciliation to total cash, cash equivalents, and restricted cash reported within the Consolidated Statements of Financial Position that sum to the total of the same such amounts shown on the Consolidated Statements of Cash Flows:

	2020	2019
Cash and cash equivalents	\$ 5,608	\$ 3,597
Cash and cash equivalents held for long-term use	2,377	4,287
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows	\$ 7,985	\$ 7,884

Investments: The fair value of all debt and equity (common stock, mutual funds and money market mutual funds) securities with a readily determinable market value are based on published market prices. Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains (losses) include PFM's gains and losses on investments bought and sold as well as held during the year.

PFM records investments received with a donor-imposed restriction that limits their use to long-term purposes as temporarily or permanently restricted investments.

Fair value measurement: PFM values certain assets and liabilities at fair value in accordance with a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity.

PFM considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument. There have been no changes in the fair value methodologies used at June 30, 2020 and 2019.

Charitable trusts: Assets held in charitable trusts are investments and are stated at fair value. The liability under trust agreements is calculated as the present value of the estimated future payments. The present value calculation uses a discount rate of 7.2% and life expectancy tables from the Internal Revenue Service. The change in value of split interest agreements includes the investment income and realized and unrealized gains and losses on the assets held in charitable trusts and actuarial adjustments to the calculated liabilities.

Contributions receivable: Contributions receivable consist of unconditional promises to give that are expected to be collected in future years. Contributions receivable are reported as net assets with donor restrictions unless explicit donor stipulations or circumstances surrounding the promise make clear the donor intended it to be used to support activities of the current period. Contributions receivable are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted rates applicable in the years in which those promises are received. Amortization of the discounts is included in contributions in the accompanying Consolidated Statements of Activities and Changes in Net Assets.

The face amount of contributions receivable is reduced by an allowance for doubtful accounts. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known troubled accounts. All contributions or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. As of June 30, 2020 and 2019, there was no allowance for doubtful accounts.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Program advances and other receivables: Program advances and other receivables consist of amounts received postmarked by, but not deposited until after, June 30, unsettled investment security sales and advance payments paid to vendors before expenses were incurred.

Inventory: Inventory consists of programmatic marketing materials, Angel Tree program materials, pamphlets, books and training materials available for sale and for ministry purposes and similar items. Inventory is valued at the lower of costs and net realizable value, based upon the first-in, first-out method.

Beneficial interest in trusts: PFM is named as the beneficiary in remainder and perpetual trusts held by third parties. The trusts are invested in cash equivalents, equity and fixed income funds, and other assets. Remainder trusts are measured at fair value as the present value of the future distributions expected to be received over the term of the agreement, discounted at rates from 1.3% to 6%, adjusted for the life expectancy of the lead beneficiary using IRS actuarial tables. Perpetual trusts are measured using the fair value of amounts contributed to the trusts, multiplied by PFM's share of the total assets.

Property, buildings and equipment: Land is carried at cost; all other property and equipment in excess of two thousand dollars in value is carried at cost less accumulated depreciation. Depreciation and amortization of property and equipment is computed on the straight-line basis over the estimated useful lives of the assets: buildings and improvements, 10 - 40 years; furniture and equipment, five years; vehicles, five years; and computer hardware and software, three years. Capital lease assets are amortized over the term of the lease.

Impairment of long-lived assets: The Organization periodically evaluates the carrying value of long-lived assets where events and circumstances warrant such a review. If the carrying value exceeds the fair value an impairment loss is recorded.

During the years ended June 30, 2020 and 2019, the Organization recorded no impairment adjustments on long-lived assets.

Internal-use software costs: The Organization capitalizes costs to develop software for internal use incurred during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Once an application has reached the development stage, management has authorized and committed to the funding of the software project, it is probable the project will be completed and the software will be used to perform the function intended, internal and external costs, if direct and incremental, are capitalized until the application is substantially complete and ready for its intended use.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Annuities payable: The liability for annuities is based on actuarially determined present values considering the income beneficiaries and applicable discount rates based on federal tables. An actuarial adjustment is recognized in the Consolidated Statements of Activities and Changes in Net Assets for the change in the value and is included in the change in value of split-interest agreements.

Contributions: Contributions are recognized as support and revenues when they are received or unconditionally promised. The Organization reports such gifts as support and revenues with donor restrictions if they are subject to time or donor-imposed restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities and Changes in Net Assets as net assets released from restrictions when a stipulated time restriction ends, purpose restriction is accomplished, or both.

PFM records contributions made to another organizations as an expense in the year they are paid or unconditionally promised.

In-kind contributions and donated securities: Non-cash contributions are recorded at estimated fair value when received or unconditionally promised.

Donated services: The work of PFM is multiplied many times over through the efforts of thousands of volunteers, who annually donate significant time to the Organization's programs and services. No amounts have been recorded in the consolidated financial statements for these donated services, in accordance with current accounting standards.

Donated securities: PFM classifies cash receipts from the sale of donated securities that upon receipt were converted nearly immediately into cash and contained no donor-imposed restrictions as cash flows from operations on the Consolidated Statements of Cash Flows, while cash receipts from the sale of donated securities with donor-imposed long-term restrictions are classified as financing activities. Otherwise, receipts from the sale of donated securities are classified as cash flows from investing activities.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Allocation of costs: PFM classifies costs between the various program services and support services in order to clearly, consistently and accurately reflect its activities. Management reviews the allocation methods each year to ensure their propriety. Costs including depreciation, occupancy, telephone, and other costs not directly charged to a program or supporting service are allocated based on time. Various factors – including the implementation of new programs or support systems, the general economic environment or the scheduling of capital fundraising projects – will have an effect on the overall allocation of costs between program services and supporting services. While it is the Ministry’s intention to minimize the funds expended toward supporting services so that program services may be maximized, year-by-year fluctuations in the allocation should be expected.

Costs are allocated as follows:

Program services

Program Ministry - PFM staff and volunteers are in correctional facilities each day sharing the Gospel, spreading hope, and teaching life-changing classes. Through evangelism events, PFM introduces incarcerated men and women to a new future in Christ and nurtures their spiritual growth with Bible studies and intensive discipleship courses. PFM also offers a holistic set of life-skills classes, mentorship opportunities, and reentry programs to prepare prisoners to be leaders in their communities—whether inside or outside of prison. In the community, PFM recruits, trains, and equips churches and other organizations that participate in the Angel Tree program, which provides a pathway for incarcerated parents to restore and strengthen their relationships with their children and families. To help returning citizens, PFM connects those who have participated in in-prison programs with local churches and other community resources that assist with community re-integration.

Public Education - Costs related to communicating the various issues in which PFM is involved to churches, volunteers and the general public. This is performed through various media and includes direct mail, publications, internet, public meetings and conferences.

Additionally, certain costs of donor communications are recorded as public education when they meet specific requirements under generally accepted accounting principles (see “Costs of joint activities” below).

International Prison Ministry - Donations made to Prison Fellowship International (“PFI”) for grants for specific PFI purposes and projects (see Note 14).

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Supporting services

Management and General - Support costs (administration, finance, information technology, human resources, etc.) include costs not directly attributable to specific programs. Costs attributable to specific programs are reported as part of program services.

Fundraising - Costs of specific activities to generate contributions (e.g., fundraising appeals) are classified as *fundraising* costs. See “Costs of joint activities” (below) for additional information on allocations to other categories when a donor communication serves more than one purpose.

Certain costs have been allocated among the areas benefited. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

Expenses	Method of Allocation
Salaries and related expenses	Employee head count
Occupancy	Employee head count
Postage	Joint cost allocation
Printing	Joint cost allocation
Telephone	Employee head count
Repair and maintenance	Employee head count
Depreciation and amortization	Employee head count

Professional fees include expenses that are directly allocated to programs and supporting service, and expenses that are allocated using employee head count and the joint cost allocation.

Costs of joint activities: PFM records the costs of joint activities that have elements of fundraising and one or more other functions (such as program or management and general) in conformity with U.S. generally accepted accounting principles (U.S. GAAP), which establishes accounting standards for recording costs associated with joint activities. U.S. GAAP requires that the criteria of purpose, audience and content be met in order to allocate any portion of the costs of joint activities to a functional area other than fundraising. See Note 13 for the dollar amounts of joint cost activities reported in the consolidated financial statements.

Advertising: Costs incurred for advertising are expensed as incurred. For the years ended June 30, 2020 and 2019, advertising costs approximated \$156 and \$210, respectively.

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax status: The Internal Revenue Service has recognized PFM and PFMF as Section 501(c)(3) not-for-profit corporations exempt from Federal income taxes as provided under the Internal Revenue Code and applicable regulations of the Commonwealth of Virginia. Therefore, PFM and PFMF have made no provision for income taxes. Both PFM and PFMF are classified as public charities.

Uncertainty in income taxes: PFM evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of June 30, 2020 and 2019, there are no accruals for uncertain tax positions. If applicable, the Organization records interest and penalties as a component of income tax expense. Tax years from 2017 through the current year remain open for examination by tax authorities.

Subsequent events: Management has evaluated subsequent events for disclosure in these consolidated financial statements through September 28, 2020, which was the date the consolidated financial statements were available to be issued.

New accounting standards adopted during fiscal year 2020: In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2018-08 (“ASU 2018-08”), *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for resource recipients for annual reporting periods beginning after December 15, 2018 and resource providers one year later. ASU 2018-08 was adopted by the Organization in 2020 and was applied to all agreements. There have been no significant changes to the timing of revenue recognition that resulted from adoption; however, the presentation and disclosures of revenue has been enhanced.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

2. Investments Investments (including assets held in charitable remainder trusts) as of June 30, 2020 and 2019, are as follows:

	2020	2019
Cash and equivalents held for long-term use	\$ 2,377	\$ 4,287
Money market funds	6	10
Equities – common stock	4,434	4,703
Mutual funds:		
Equity funds	2,983	3,457
Fixed income funds	8,178	5,383
Fixed income securities:		
Federal government bonds and notes	771	885
Mortgage backed securities	662	641
Corporate bonds	1,388	1,067
International bonds	-	21
Alternative investments:		
Land trusts	2	2
Total investments	\$ 20,801	\$ 20,456

3. Fair value Certain assets were recorded at fair value on a recurring basis as of June 30, 2020 based on the following level of hierarchy:

June 30, 2020	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Beneficial interests in trusts	\$ 780	\$ -	\$ -	\$ 780
Investments:				
Money market funds	\$ 6	\$ 6	\$ -	\$ -
Equities – common stock	4,434	4,434	-	-
Mutual funds:				
Equity funds	2,983	2,983	-	-
Fixed income funds	8,178	8,178	-	-
Fixed income securities:				
Federal government bonds and notes	771	-	771	-
Mortgage backed securities	662	-	662	-
Corporate bonds	1,388	-	1,388	-
Land trusts	2	-	-	2
Total investments	\$ 18,424	\$ 15,601	\$ 2,821	\$ 2

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Notes to Consolidated Financial Statements (\$ in Thousands)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3) during the year ended June 30, 2020:

	Land trusts		Beneficial interest in trusts
Beginning balance	\$ 2	\$	784
Change in value	-		(4)
Actuarial change	-		-
Sales	-		-
Additions	-		-
Distributions	-		-
Ending balance	\$ 2	\$	780

Certain investments and liabilities were recorded at fair value on a recurring basis as of June 30, 2019 based on the following level of hierarchy:

June 30, 2019	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Beneficial interests in trusts	\$ 784	\$ -	\$ -	\$ 784
Investments:				
Money market funds	\$ 10	\$ 10	\$ -	\$ -
Equities – common stock	4,703	4,703	-	-
Mutual funds:				
Equity funds	3,457	3,457	-	-
Fixed income funds	5,383	5,383	-	-
Fixed income securities:				
Federal government bonds and notes	885	-	885	-
Mortgage backed securities	641	-	641	-
Corporate bonds	1,067	-	1,067	-
International bonds	21	-	21	-
Land trusts	2	-	-	2
Total investments	\$ 16,169	\$ 13,533	\$ 2,614	\$ 2

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Notes to Consolidated Financial Statements (\$ in Thousands)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3) during the period ended June 30, 2019:

	Land trusts	Beneficial interest in trusts
Beginning balance	\$ 2	\$ 958
Change in value	-	3
Actuarial change	-	-
Sales	-	-
Additions	-	-
Distributions	-	(177)
Ending balance	\$ 2	\$ 784

Level 2 values of federal, corporate and international bonds and mortgage backed securities are estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, and fundamental data relating to the issuer.

Level 3 beneficial interests consist of remainder trusts and perpetual trusts, which are invested in cash equivalents, equity and fixed income funds, and other assets. Remainder trusts are measured at the present value of the future distributions expected to be received over the term of the agreement, discounted at rates from 1.3% to 6%, which reflects current market conditions, adjusted for the life expectancy of the lead beneficiary using IRS actuarial tables. Perpetual trusts are measured using the fair value of amounts contributed to the trusts, multiplied by PFM's share of the total assets.

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Notes to Consolidated Financial Statements (\$ in Thousands)

The following table summarizes the valuation techniques and significant unobservable inputs used for PFM's significant assets and liabilities categorized within Level 3 of the fair value hierarchy at June 30, 2020 and 2019.

	Fair Value at 6/30/2020	Fair Value at 6/30/2019	Valuation Techniques	Unobservable Input	Range of Significant Input Values
Beneficial interest in remainder trusts	\$ 528	\$ 532	Income approach Present value of future cash flows	Discount rate Life expectancy	1.3% - 6% Fiscal Year 2020 – 4.6 years Fiscal Year 2019 – 4.1 – 25.2 years
Beneficial interest in perpetual trusts	\$ 252	\$ 252	Income approach Present value of future cash flows	Fair value of assets contributed to the trust	N/A

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Notes to Consolidated Financial Statements (\$ in Thousands)

4. Contributions receivable The following comprised contributions receivable as of June 30:

	2020	2019
Due in 1 year or less	\$ 1,650	\$ 1,947
Due in 1 to 5 years	1,467	2,073
Total gross contributions receivable	3,117	4,020
Less:		
Present value discount	(63)	(94)
Contributions receivable, net	\$ 3,054	\$ 3,926

The following comprised conditional contributions receivable as of June 30:

Match available for Northwest Academies	\$ -	\$ 152
Total conditional contributions receivable	\$ -	\$ 152

Contributions receivable are discounted to their present value using a rate of 2.08%.

As of June 30, 2020, three donors had contribution receivable balances outstanding which represented 68% of total gross contributions receivable.

As of June 30, 2019, two donors had contribution receivable balances outstanding which represented 55% of total gross contributions receivable.

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5. Property, buildings and equipment

Property, buildings and equipment are as follows at June 30:

	2020	2019
Land	\$ 3,299	\$ 3,299
Building and improvements	18,834	18,858
Furniture, equipment and other	2,396	2,415
Vehicles	44	44
Computer hardware	410	678
Computer software	1,708	1,233
Leased equipment	93	93
Total	26,784	26,620
Less: Accumulated depreciation and amortization	(11,870)	(11,424)
Total	14,914	15,196
Construction in progress	19	147
Property, buildings and equipment, net	\$ 14,933	\$ 15,343

Depreciation and amortization expense totaled \$879 and \$936, for the years ended June 30, 2020 and 2019, respectively.

Construction in progress consists of internal use software developed to be used with program and supporting services. Depreciation will begin once the software is completed and placed in service.

6. Split interest agreements

Charitable gift annuities: The Organization has established a Planned Giving Fund to account for gift annuities and charitable trusts. Under the gift annuities program, in return for a contribution, the Organization agrees to pay the donor an annuity for the donor's lifetime. The liability for future payments to donors at June 30, 2020 and 2019, based on an independent actuarial valuation, is \$3,097 and \$3,412, respectively.

The 2020 and 2019 liability is calculated using mortality rates from the 2012 Individual Annuity Reserving Table ("IAR"). A discount rate of 5% to 6.5% is used for annuities issued prior to July 2016, and 4.25% for those issued on or after July 1, 2016.

The Organization sets its interest rate commitments under its gift annuities program based on those set by the American Council of Gift Annuities ("ACGA") at the time of issuance. The ACGA rates are based on specific assumptions regarding, among

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other things, net investment returns and expected life span so that, upon the annuitant's death, half of the original contribution remains available for the Organization's general operations. Because of the nature of gift annuities, it is possible that the total payments to an annuitant over his/her lifespan can exceed the net investment income and expected residual value of the segregated assets, if lower than expected long-term investment returns and/or higher than expected life spans are experienced. Management believes there are sufficient assets to meet the expected future obligations without using assets intended for daily operations. Total assets separately maintained as cash, cash equivalents and investments relating to charitable gift annuities totaled \$4,250 and \$4,691 as of June 30, 2020 and 2019, respectively. Asset balances at June 30, 2020 and 2019 exceeded the reserve requirements of the relevant regulatory bodies in all states that require a reserve fund and in which the Organization issues gift annuities.

Charitable trusts: As of June 30, 2020 and 2019, PFM maintained assets totaling \$181 and \$189, respectively, in conjunction with charitable remainder annuity trusts and charitable remainder unitrusts. Under these agreements, PFM is designated as the trustee and is required to make payments equal to a percentage of the net fair market value of the trust as of the valuation date over either the donor's estimated life or a certain number of years, as specified in the trust agreement. Upon termination of the trust, PFM will receive the remaining assets. The trust assets are initially recorded at fair market value as of the date of donation. The liability for future payments to donors at June 30, 2020 and 2019 was \$62 and \$55, respectively.

Beneficial interest in trusts: PFM was named a beneficiary in four charitable remainder trusts held by third parties. The value of PFM's interest in the trusts totaled \$528 and \$532, as of June 30, 2020 and 2019, respectively, and is included in net assets with donor restrictions. The changes in the fair value of the trust assets are recognized as net assets with donor restrictions. Distributions received from the trusts are recognized as net assets without donor restrictions unless purpose restricted by the donor.

PFM was named a beneficiary in four perpetual trusts held by third parties. The value of PFM's interest in the trusts totaled of \$252 as of June 30, 2020 and 2019, respectively, and is included in net assets with donor restrictions and the endowment. The changes in the fair value of the trust assets are recognized as net assets with donor restrictions. Distributions received from the trusts are recognized as net assets without donor restrictions unless purpose restricted by the donor.

7. Refundable advance

In April 2020, the Organization entered into a note payable agreement in an amount of \$3,466 with a local bank pursuant to the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The PPP loan has a two-year term and bears interest at a rate of 1.0% per annum. Monthly principal and interest payments are deferred for six months after the date of

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disbursement. The PPP loan may be prepaid at any time prior to maturity with no prepayment penalties. The CARES Act provides that the PPP loan may be partially or wholly forgiven if the funds are used for certain qualifying expenses as described in the CARES Act. The Organization planned to use the proceeds from the PPP loan exclusively for qualifying expenses during the year ended June 30, 2020 and intend to apply, subsequent to June 30, 2020, for forgiveness of the PPP loan in accordance with the terms of the CARES Act. Management believes that it is probable that the PPP amount will be wholly forgiven. In anticipation of the full forgiveness, the PPP amount is classified as refundable advances at June 30, 2020 in the Consolidated Statements of Financial Position.

8. Liquidity and financial assets

The following represents PFM's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general use, primarily due to contractual or donor-imposed restrictions, within one year of the Consolidated Statement of Financial Position date. PFM's financial assets consist of cash and cash equivalents, investments, contributions receivable and other receivables.

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 5,608	\$ 3,597
Cash and equivalents held for long-term use	2,377	4,287
Investments	18,243	15,980
Contributions receivable, net	3,054	3,926
Other receivables	1,103	805
Total financial assets	30,385	28,595
Less those unavailable for general expenditure within one year, due to:		
Perpetual restrictions by donor	(3,490)	(3,490)
Subject to satisfaction of donor purpose restrictions	(9,257)	(9,241)
Subject to satisfaction of donor time restrictions	(1,880)	(2,435)
Unappropriated cumulative endowment earnings	(646)	(705)
Investments held for planned giving obligations	(4,250)	(4,691)
Board designated funds	(2,158)	(4,064)
Total financial assets available to meet cash obligations for general expenditures within one year	\$ 8,704	\$ 3,969

PFM is substantially supported by contributions with donor restrictions. Because a donor's restriction requires resources to be used for a particular purpose or in a future period, PFM maintains sufficient resources to meet those responsibilities to its donors and monitors spending for restricted purposes on a monthly basis.

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Notes to Consolidated Financial Statements (\$ in Thousands)

As part of PFM's liquidity management, it has a policy to structure its investments to be available as its general expenditures, liabilities and other obligations come due. The board designated funds are intended to support the operations of PFM. Management is authorized at its discretion to spend up to \$1,000 of the board designated funds, which is not included in the classification above. Anything above the \$1,000 requires approval of the Finance and Audit Committee Chairs and/or the Board. As part of its effort to help facilitate the liquidity, PFM maintains a certain amount of cash as a working capital fund in which PFM management can draw down as cash flow needs for general operational expenditures while the excess is invested in short-term investments. Of the \$8,704 of financial assets available as of June 30, 2020, a total of \$3,850 represents the balance of PFM's working capital fund. Of the \$3,969 of financial assets available as of June 30, 2019, a total of \$2,822 represents the balance of PFM's working capital fund.

9. Concentration of credit risk Financial instruments which potentially subject PFM to concentrations of credit risk consist primarily of cash, cash equivalents, investments and contributions receivable. PFM maintains substantially all of its cash, cash equivalents and investments in high credit-quality financial institutions. Cash held by financial institutions is insured by the Federal Deposit Insurance Corporation up to \$250. Investments held by financial institutions are insured by the Securities Investor Protection Corporation up to \$500, which includes up to \$250 protection for cash held in brokerage accounts. At June 30, 2020 and 2019, substantially all of PFM's cash, cash equivalents and investment balances were uninsured. For the composition of investment balances at June 30, 2020 and 2019, see Note 2.

10. Retirement plan PFM maintains a defined contribution plan that covers all qualifying employees, as defined within the plan agreement. The plan is based on mandatory employee contributions of 2% of annual salary with PFM's discretionary contributions equaling 3% of annual salary for the years ended June 30, 2020 and 2019. Employees are 100% vested in contributions they make to the defined contribution plan and investment income earned thereon. Contributions by PFM on their behalf and investment income earned are immediately vested.

Total PFM contributions were \$554 and \$506 for the years ended June 30, 2020 and 2019, respectively.

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Notes to Consolidated Financial Statements (\$ in Thousands)

11. Leases

Operating leases: PFM has entered into various operating lease agreements, as lessee, primarily for office space and office equipment. Operating lease expenses incurred under these operating leases were \$55 and \$81 in 2020 and 2019, respectively.

Capital lease: PFM entered into an agreement in September 2017 for the 5-year lease of copiers which is classified as a capital lease, with capitalized costs totaling \$93. The interest rate related to the lease obligation is 6.4 percent, and the maturity is August 2023. Amortization expense for both the years ended June 30, 2020 and 2019 totaled \$19.

The following is a schedule showing the future minimum lease payments under the capital lease and the present value of the minimum lease payments as of June 30, 2020.

For the years ending June 30:

2021	\$		22
2022			22
2023			3
Total minimum lease payments			47
Less, amount representing interest			(3)
Present value of minimum lease payments		\$	44

12. Sublease rental income

PFM has entered into sublease rental agreements with three organizations for office space, office equipment and for the use of a portion of the building that is not otherwise occupied by PFM. Sublease rental income recognized by PFM was \$849 and \$1,222 in 2020 and 2019, respectively, and is included in other revenue on the Consolidated Statements of Activities and Changes in Net Assets.

PFM's future sublease receipts for the use of the facilities as of June 30, 2020, are as follows:

		Total
For the years ending June 30:		
2021	\$	590
2022		180
2023		184
2024		187
2025		63
Total		\$ 1,204

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Notes to Consolidated Financial Statements (\$ in Thousands)

13. Allocation of joint costs During 2020 and 2019, PFM incurred joint costs of \$7,715 and \$6,751, respectively, for informational materials, primarily related to direct mailings that included fundraising appeals. Pursuant to U.S. GAAP, these costs were allocated to the functional areas as follows:

	2020	2019
Program services	\$ 1,111	\$ 1,057
Supporting services:		
Fundraising	6,448	5,585
Management and general	156	109
Total	\$ 7,715	\$ 6,751

14. Related parties PFM is a chartered member and affiliated organization of Prison Fellowship International (“PFI”), the association of Prison Fellowship organizations in over 120 countries. The assets, liabilities, and net assets of PFI are not consolidated with those of PFM as the criteria for control (determining consolidation) have not been met. PFM provides monetary support to PFI consisting of grants and donations for specific program support. An agreement was signed in June 2013 to demonstrate and implement a visible and meaningful commitment to unity between the two organizations. The agreement addresses trademarks, office location, fundraising and funding. The total amount of monetary support provided to PFI was \$757 and \$761 in 2020 and 2019, respectively.

15. Risk and uncertainties PFM invests in various investments. Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the Consolidated Statements of Financial Position.

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Notes to Consolidated Financial Statements (\$ in Thousands)

16. Net assets with donor restrictions Perpetual in nature net assets consist of donations made with the restriction that the principal be maintained in perpetuity. The income earned on this principal can be used in the unrestricted operations of PFM; it is held as restricted pending distribution by the Board of Directors. Net assets with donor restrictions at June 30, 2020 and 2019, are as follows:

	2020	2019
Perpetual in nature	\$ 3,490	\$ 3,490
Program assistance	9,742	9,241
Time restricted for periods after June 30	2,862	4,382
Cumulative unappropriated endowment income – time restricted	646	705
Total	\$ 16,740	\$ 17,818

For the years ended June 30, 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time releasing time restrictions:

	2020	2019
Program assistance	\$ 13,800	\$ 9,386
Time restrictions expired	1,728	1,704
Total	\$ 15,528	\$ 11,090

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Notes to Consolidated Financial Statements (\$ in Thousands)

17. Endowment funds

The Organization had donor-restricted endowment funds totaling \$3,490 and \$3,490 at June 30, 2020 and 2019. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of the relevant law

The PFM Board of Directors has interpreted the Commonwealth of Virginia Uniform Prudent Management of institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. At June 30, 2020 and 2019, there were no such donor stipulations. As a result of this interpretation, PFM retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the endowment fund and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the organization and donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and appreciation of investments;
6. Other resources of the organization; and
7. The investment policies of the organization.

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Notes to Consolidated Financial Statements (\$ in Thousands)

Endowment net assets composition by type of fund as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ -	\$ 3,490	\$ 3,490
Cumulative unappropriated endowment income – time restricted	-	646	646
Total funds	\$ -	\$ 4,136	\$ 4,136

Changes in endowment net assets for the fiscal year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 4,195	\$ 4,195
Investment return:			
Investment income	-	247	247
Net depreciation (realized and unrealized)	-	(292)	(292)
Total investment return	-	(45)	(45)
Appropriations of endowment assets for expenditure	-	(14)	(14)
Change in value of perpetual trusts	-	-	-
Endowment net assets, end of year	\$ -	\$ 4,136	\$ 4,136

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Notes to Consolidated Financial Statements (\$ in Thousands)

Endowment net assets composition by type of fund as of June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ -	\$ 3,490	\$ 3,490
Accumulated investment gains	-	705	705
Total funds	\$ -	\$ 4,195	\$ 4,195

Changes in endowment net assets for the fiscal year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 3,931	\$ 3,931
Investment return:			
Investment income	-	128	128
Net appreciation (realized and unrealized)	-	137	137
Total investment return	-	265	265
Appropriations of endowment assets for expenditure	-	-	-
Change in value of perpetual trusts	-	(1)	(1)
Endowment net assets, end of year	\$ -	\$ 4,195	\$ 4,195

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Notes to Consolidated Financial Statements (\$ in Thousands)

Description of amounts classified as net assets with donor restrictions (endowment only):

	<u>2020</u>	<u>2019</u>
Net Assets Perpetual in Nature		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ 3,490	\$ 3,490
Net Assets with Donor Restrictions		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA and without purpose restrictions	\$ 646	\$ 705

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the PFM to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2020 and 2019.

Return objectives and risk parameters

PFM has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that PFM must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to maximize the rate of return based upon specific allocation guidelines within the investment policy. The investment time horizon is long term and is expected that the investment portfolio will achieve moderate growth and growth of income in order to meet cash flow needs.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, PFM relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). PFM targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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Notes to Consolidated Financial Statements (\$ in Thousands)

Spending policy and how the investment objectives relate to spending policy

None of PFM's endowment earnings are donor-restricted. Any earnings are held as temporarily restricted income until appropriated for distribution by the Board. In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with PFM's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

18. Contingencies

The Organization maintains a self-insurance program for its employees' health care costs. Self-insurance costs are accrued based on claims reported as of the Consolidated Statement of Financial Position date as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was \$252 and \$374 as of June 30, 2020 and 2019, respectively.

As a result of the spread of the COVID-19 coronavirus, the Organization has experienced disruptions to daily operations and events. Certain financial impacts could occur though such potential impacts are unknown at this time.