PRISON FELLOWSHIP MINISTRIES AND AFFILIATE

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2021 AND 2020

Prison Fellowship Ministries and Affiliate

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Independent Auditor's Report

aronson LLC
ASSURANCE | TAX | CONSULTING

111 Rockville Pike
Suite 600
Rockville, Maryland 20850

301.231.6200
301.231.7630
www.aronsonllc.com
info@aronsonllc.com

Board of Directors
Prison Fellowship Ministries and Affiliate
Lansdowne, Virginia

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, 2021 and 2020, 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, 2021 and 2020, 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.

Aronson LLC

Rockville, Maryland
September 23, 2021

Prison Fellowship Ministries and Affiliate

Consolidated Statements of Financial Position
($ in Thousands)

June 30		**2021**		2020
Assets				
Cash and cash equivalents	**$**	**9,583**	$	5,608
Investments				
Cash and cash equivalents held for long-term use		**20,189**		2,377
Investments		**22,401**		18,243
Assets held in charitable remainder trusts		**213**		181
Total investments		**42,803**		20,801
Contributions receivable, net		**1,902**		3,054
Program advances and other receivables		**1,433**		1,321
Prepaid expenses and other assets		**467**		370
Inventory of publications and supplies		**733**		693
Beneficial interest in trusts		**1,023**		780
Cash surrender value of life insurance policies		**125**		117
Property, buildings and equipment, net		**1,033**		14,933
Total assets	**$**	**59,102**	$	47,677
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	**$**	**3,413**	$	2,380
Accrued salaries and benefits		**1,612**		1,419
Deferred revenue		**-**		47
Refundable advances		**-**		3,466
Capital lease obligation		**62**		44
Annuities payable		**3,077**		3,097
Liability under trust agreements		**56**		62
Total liabilities		**8,220**		10,515
Net assets				
Without donor restrictions		**29,759**		20,422
With donor restrictions		**21,123**		16,740
Total net assets		**50,882**		37,162
Total liabilities and net assets	**$**	**59,102**	$	47,677

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

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

For the Year Ended June 30, 2021	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	$ 27,951	$ 33,029	$ 60,980
Rental income	634	-	634
Other revenue	49	-	49
In-kind contributions	710	-	710
Gain on sale and disposal of property, buildings, and equipment	3,621	-	3,621
Net assets released from restrictions	29,604	(29,604)	-
Total support and revenue	62,569	3,425	65,994
Expenses			
Program services:			
Program ministry	28,465	-	28,465
Public education	4,645	-	4,645
International prison ministry	4,900	-	4,900
Total program services	38,010	-	38,010
Supporting services:			
Management and general	4,907	-	4,907
Fundraising	12,879	-	12,879
Total supporting services	17,786	-	17,786
Total expenses	55,796	-	55,796
Change in net assets from operations	6,773	3,425	10,198
Investment return, net	2,740	735	3,475
Change in value of split-interest agreements	(176)	223	47
Change in net assets	9,337	4,383	13,720
Net assets, beginning of year	20,422	16,740	37,162
Net assets, end of year	$ 29,759	$ 21,123	$ 50,882

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

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

For the Year Ended June 30, 2020	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	$ 28,459	$ 14,516	$ 42,975
Rental income	849	-	849
Other revenue	36	-	36
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.

Consolidated Statement of Functional Expenses
($ in Thousands)

For the Year Ended June 30, 2021	Program Services: Program Ministry	Program Services: Public Education	Program Services: International Prison Ministry	Program Services: Total	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total	Total
Salaries and related expenses	$ 16,997	$ 2,477	$ -	$ 19,474	$ 3,312	$ 2,621	$ 5,933	**$ 25,407**
Other expenses								
Consulting	943	81	-	1,024	88	140	228	**1,252**
Donations	1,370	5	4,900	6,275	13	5	18	**6,293**
Materials and supplies	5,095	133	-	5,228	229	143	372	**5,600**
Occupancy	244	33	-	277	113	25	138	**415**
Other	845	62	-	907	335	54	389	**1,296**
Postage	506	299	-	805	62	1,660	1,722	**2,527**
Printing	112	365	-	477	74	2,200	2,274	**2,751**
Professional fees	1,027	1,009	-	2,036	380	5,891	6,271	**8,307**
Repair and maintenance	47	8	-	55	24	6	30	**85**
Telephone	256	30	-	286	23	30	53	**339**
Travel	556	64	-	620	51	30	81	**701**
Total other expenses	11,001	2,089	4,900	17,990	1,392	10,184	11,576	**29,566**
Depreciation and amortization	467	79	-	546	203	74	277	**823**
Total expenses	**$ 28,465**	**$ 4,645**	**$ 4,900**	**$ 38,010**	**$ 4,907**	**$ 12,879**	**$ 17,786**	**$ 55,796**

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

Consolidated Statement of Functional Expenses
($ in Thousands)

For the Year Ended June 30, 2020	Program Services: Program Ministry	Program Services: Public Education	Program Services: International Prison Ministry	Program Services: Total	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: 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

Consolidated Statements of Cash Flows
($ in Thousands)

For the Years Ended June 30,	**2021**	2020
Cash flows from operating activities		
Change in net assets	**$ 13,720**	$ (738)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	**823**	879
Change in contributions receivable discount and allowance	**(51)**	25
Contributed securities	**(923)**	(217)
Realized and unrealized (gain) loss on investments	**(3,159)**	408
Actuarial loss on annuity obligations	**168**	68
Gain on sale and disposal of property, buildings, and equipment	**(3,621)**	-
Change in cash surrender value of life insurance policies	**(8)**	(9)
(Increase) decrease in:		
Contributions receivable	**1,203**	847
Program advances and other receivables	**(112)**	(362)
Prepaid expenses and other assets	**(97)**	(47)
Inventory of publications and supplies	**(40)**	(208)
Beneficial interest in trusts	**(243)**	4
Increase (decrease) in:		
Accounts payable and accrued expenses	**1,033**	(931)
Accrued salaries and benefits	**193**	257
Deferred revenue	**(47)**	(32)
Refundable advances	**(3,466)**	-
Liability under trust agreements	**(6)**	7
Net cash provided (used) by operating activities	**5,367**	(49)
Cash flows from investing activities		
Acquisitions of property and equipment	**(611)**	(469)
Proceeds from sale of property, buildings, and equipment	**17,361**	-
Proceeds from sale of investments	**8,311**	8,685
Purchase of investments	**(8,419)**	(11,131)
Net cash provided (used) by investing activities	**16,642**	(2,915)
Cash flows from financing activities		
Proceeds from refundable advances	**-**	3,466
Proceeds from annuity agreements	**232**	68
Payment of annuity obligations	**(420)**	(451)
Payment of capital lease obligation	**(34)**	(18)
Net cash (used) provided by financing activities	**(222)**	3,065

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

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

For the Years Ended June 30,		**2021**		2020
Net change in cash and cash equivalents		**21,787**		101
Cash, cash equivalents, and cash held for long-term use, beginning of year		**7,985**		7,884
Cash, cash equivalents, and cash held for long-term use, end of year	**$**	**29,772**	$	7,985
Noncash investing transactions				
Net unsettled sales of investment securities	**$**	**(1)**	$	(38)
Assets acquired under capital lease obligations	**$**	**52**	$	-

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

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.

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

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, 2021 and 2020, net assets without donor restrictions included $60 of donor advised funds. 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 $19,424 and $2,158 as of June 30, 2021 and 2020, 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.

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:

	2021	2020
Cash and cash equivalents	**$ 9,583**	$ 5,608
Cash and cash equivalents held for long-term use	**20,189**	2,377
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows	**$ 29,772**	$ 7,985

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.

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, 2021 and 2020.

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, 2021 and 2020, there was no allowance for doubtful accounts.

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: 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, ten to forty 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, 2021 and 2020, 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.

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.

Revenue recognition: The Organization adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (ASC 606), on July 1, 2020. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model is outlined below:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Accordingly, the following revenue streams are within the scope of ASC 606:

Other revenue: Other revenue is primarily made up of miscellaneous income. These related contracts generally have each one performance obligation and the revenue is recognized at a point in time.

License fee: In June 2021, PFM entered into an agreement with a related party to provide access to a license in exchange for a fixed fee of $1,400, which is payable in 14 equal annual payments of $100 starting July 2021 through July 2035. The single performance obligation is satisfied over time and revenue is recognized ratably during the term of the agreement. Since each annual installment is recognized over the course of the following year within revenue as access to the license is made available, there will be no significant financing components. The licensing began in July 2021. Consequently, no income was recorded in connection with this license agreement for the year ended June 30, 2021.

The following revenue streams are outside the scope of ASC 606:

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 organization as an expense in the year they are paid or unconditionally promised.

Rental income: Rental income is recognized on a straight-line basis over the lease term.

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.

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 prisons each day building communities of good citizens through its Prison Fellowship Academy', which uses targeted curriculum, compassionate coaches, and restorative community to replace participants' criminal thinking and behaviors with renewed purpose and biblically based life principles. Graduates complete the year-long program as change agents inside and outside of prison. PFM also partners with churches and national and local reentry organizations to ensure Academy graduates returning to their communities have the connections and resources necessary to be successful. PFM hosts evangelistic Hope Events and restorative art-based workshops in prison, provides inspiring and educational streaming content to prison television systems and tablets via its Floodlight platform, and provides free bibles, devotionals, and other resources to prison chaplains. PFM Angel Tree equips churches to strengthen relationships between incarcerated parents and their children and support the families of prisoners year-round.

Public Education - Costs related to the efforts of PFM's advocacy team to communicate to churches, volunteers, and the general public the policy and legislative issues PFM supports on state and federal levels. This work is performed via direct mail, news and information outlets, web postings, online webinars, live events, conferences, and other various media.

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 13).

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 services, 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 12 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, 2021 and 2020, advertising costs approximated $358 and $156, respectively.

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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, 2021 and 2020, 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 2018 through the current year remain open for examination by tax authorities.

Reclassification: Certain 2020 balances have been reclassified to reflect 2021 presentation.

Subsequent events: Management has evaluated subsequent events for disclosure in these consolidated financial statements through September 23, 2021, which was the date the consolidated financial statements were available to be issued.

Recently adopted accounting standard: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the existing accounting standards for revenue recognition. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contract with Customers (Topic 606): Deferral of the Effective Date*, which delayed the effective date of ASU 2014-09 by one year to years beginning after December 15, 2018. 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*, which allows organizations to elect to further delay the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2019. Entities are also allowed to choose to adopt the standard as of the original effective date. Additionally, various updates have been issued to clarify the guidance in Topic 606. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The new standard permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of applying the guidance recognized at the date of initial application (the modified retrospective method). The Organization adopted Topic 606 with a date of the initial application of July 1, 2020, using the modified retrospective method. Topic 606 is applied only to contracts that are not completed at the initial date of application. There were no significant changes that resulted from adoption; however, the presentation and disclosures of revenue has been enhanced.

($ in Thousands)

Recent accounting pronouncement not yet adopted: In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which supersedes the existing lease accounting standard and sets out principles for the recognition, measurement, presentation and disclosure of leases. Under the new guidance, a lessee will be required to recognize lease assets and lease liabilities for all leases with lease terms in excess of twelve months. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. ASU 2016-02 was originally effective for the Organization on July 1, 2021. 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*, which delays the effective date of ASU 2016-02 to annual reporting periods beginning after December 15, 2021. Entities are also allowed to choose to adopt the standard as of the original effective date. The Organization plans to adopt this new standard as of July 1, 2022. The Organization is in the process of evaluating the impact from this new guidance.

2. Investments

Investments (including assets held in charitable remainder trusts) as of June 30, 2021 and 2020, are as follows:

	2021	2020
Cash and equivalents held for long-term use	$ **20,189**	$ 2,377
Money market funds	**-**	6
Equities – common stock	**4,710**	4,434
Mutual funds:		
Equity funds	**5,526**	2,983
Fixed income funds	**9,263**	8,178
Fixed income securities:		
Federal government bonds and notes	**937**	771
Mortgage backed securities	**821**	662
Corporate bonds	**1,355**	1,388
Alternative investments:		
Land trusts	**2**	2
Total investments	**$ 42,803**	$ 20,801

($ in Thousands)

3. Fair value

Certain assets were recorded at fair value on a recurring basis as of June 30, 2021 based on the following level of hierarchy:

	Fair Value Measurements			
June 30, 2021	Total	Level 1	Level 2	Level 3
Beneficial interests in trusts	**$ 1,023**	**$ -**	**$ -**	**$ 1,023**
Investments:				
Equities – common stock	**$ 4,710**	**$ 4,710**	**$ -**	**$ -**
Mutual funds:				
Equity funds	**5,526**	**5,526**	**-**	**-**
Fixed income funds	**9,263**	**9,263**	**-**	**-**
Fixed income securities:				
Federal government bonds and notes	**937**	**-**	**937**	**-**
Mortgage backed securities	**821**	**-**	**821**	**-**
Corporate bonds	**1,355**	**-**	**1,355**	**-**
Land trusts	**2**	**-**	**-**	**2**
Total investments	**$ 22,614**	**$ 19,499**	**$ 3,113**	**$ 2**

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, 2021:

	Land trusts	**Beneficial interest in trusts**
Beginning balance	**$ 2**	**$ 780**
Change in value	**-**	**185**
Actuarial change	**-**	**-**
Sales	**-**	**-**
Additions	**-**	**58**
Ending balance	**$ 2**	**$ 1,023**

($ in Thousands)

Certain investments and liabilities were recorded at fair value on a recurring basis as of June 30, 2020 based on the following level of hierarchy:

		Fair Value Measurements		
June 30, 2020	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

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, 2020:

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

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.

($ in Thousands)

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.

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, 2021 and 2020.

	Fair Value at 6/30/2021	**Fair Value at 6/30/2020**	**Valuation Techniques**	**Unobservable Input**	**Range of Significant Input Values**
Beneficial interest in remainder trusts	**$ 632**	$ 528	Income approach Present value of future cash flows	Discount rate Life expectancy	1.3% - 6% Fiscal Year 2021 – 3.6 years Fiscal Year 2020 – 4.6 years
Beneficial interest in perpetual trusts	**$ 391**	$ 252	Income approach Present value of future cash flows	Fair value of assets contributed to the trust	N/A

($ in Thousands)

4. Contributions receivable

The following comprised contributions receivable as of June 30:

		2021		2020
Due in 1 year or less	$	1,648	$	1,650
Due in 1 to 5 years		266		1,467
Total gross contributions receivable		1,914		3,117
Less:				
Present value discount		(12)		(63)
Contributions receivable, net	$	1,902	$	3,054

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

As of June 30, 2021, three donors had contribution receivable balances outstanding which represented 55% of total gross contributions receivable.

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

5. Property, buildings and equipment

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

		2021		2020
Land	$	-	$	3,299
Building and improvements		-		18,834
Furniture, equipment and other		399		2,396
Vehicles		44		44
Computer hardware		471		410
Computer software		2,015		1,708
Leased equipment		52		93
Total		2,981		26,784
Less: Accumulated depreciation and amortization		(2,182)		(11,870)
Total		799		14,914
Construction in progress		234		19
Property, buildings and equipment, net	$	1,033	$	14,933

In May 2021, PFM sold its property, buildings and improvements, and certain furniture and equipment at the gross price of $17,500. These assets along with related accumulated depreciation were disposed of upon the sale of the property. PFM realized a gain on sale and disposal of the property of $3,621 and is included in the Consolidated Statements of Activities and Changes in Net Assets.

Depreciation and amortization expense totaled $823 and $879, for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, based on an independent actuarial valuation, is $3,077 and $3,097, respectively.

The 2021 and 2020 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, 4.25% for those issued on or after July 1, 2016, and 3.75% for those issued on or after July 1, 2020.

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 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 $4,705 and $4,250 as of June 30, 2021 and 2020, respectively. Asset balances at June 30, 2021 and 2020 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, 2021 and 2020, PFM maintained assets totaling $213 and $181, 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, 2021 and 2020 was $56 and $62, respectively, and is classified as liability under trust agreements on the Consolidated Statements of Financial Position.

Beneficial interest in trusts: PFM was named a beneficiary in a few charitable remainder trusts held by third parties. The value of PFM's interest in the trusts totaled $632 and $528, as of June 30, 2021 and 2020, 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 five perpetual trusts held by third parties. The value of PFM's interest in the trusts totaled of $391 and $252 as of June 30, 2021 and 2020, 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.

($ in Thousands)

7. Liquidity and financial assets

The following represents PFM's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general use, primarily due to contractual or donor-imposed restrictions, within one year of the Consolidated Statements of Financial Position date. PFM's financial assets consist of cash and cash equivalents, investments, contributions receivable and other receivables.

	2021	2020
Financial assets:		
Cash and cash equivalents	**$ 9,583**	$ 5,608
Cash and equivalents held for long-term use	**20,189**	2,377
Investments	**22,401**	18,243
Contributions receivable, net	**1,902**	3,054
Other receivables	**1,174**	1,103
Total financial assets	**55,249**	30,385
Less those unavailable for general expenditure within one year, due to:		
Perpetual restrictions by donor	**(3,629)**	(3,490)
Subject to satisfaction of donor purpose restrictions	**(14,421)**	(9,257)
Subject to satisfaction of donor time restrictions	**(2,777)**	(1,880)
Unappropriated cumulative endowment earnings	**(30)**	(646)
Investments held for planned giving obligations	**(3,384)**	(4,250)
Board designated funds	**(19,424)**	(2,158)
Total financial assets available to meet cash obligations for general expenditures within one year	**$ 11,584**	$ 8,704

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.

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 $11,584 of financial assets available as of June 30, 2021, a total of $6,018 represents the balance of PFM's working capital fund. 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.

In addition, PFM obtained during the year ended June 30, 2021 a line of credit in the amount of $5,000 with a local bank, which it could draw upon in the event of an unanticipated need. The line of credit expires on January 27, 2022. The interest rate on the line of credit was 3% as of June 30, 2021. No balance was drawn on the line as of June 30, 2021.

8. 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, 2021 and 2020, substantially all of PFM's cash, cash equivalents and investment balances were uninsured. For the composition of investment balances at June 30, 2021 and 2020, see Note 2.

9. 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, 2021 and 2020. 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 $578 and $554 for the years ended June 30, 2021 and 2020, respectively.

10. Leases

Operating leases: PFM has entered into various operating lease agreements, as lessee, primarily for office space and office equipment. Upon the sale of its property and building, PFM entered into an operating lease agreement in May 2021 for an office space with a two-year term which does not contain any escalation clause. Operating lease expenses incurred under these operating leases were $65 and $55 in 2021 and 2020, respectively.

Future minimum lease payments under the office lease are $196 for the year ending June 30, 2022 and $163 for the year ending June 30, 2023.

($ in Thousands)

Capital lease: PFM entered into an agreement in September 2017 for the 5-year lease of copiers which is classified as a capital lease. During the year ended June 30, 2021, PFM re-negotiated certain terms of the agreement. The capitalized costs of the capital lease totaled $52. The new interest rate related to the lease obligation is 4.6 percent and the maturity is extended to December 2023. Amortization expense for the years ended June 30, 2021 and 2020 totaled $18 and $19, respectively.

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, 2021.

For the years ending June 30:		
2022	$	26
2023		26
2024		14
Total minimum lease payments		66
Less, amount representing interest		(4)
Present value of minimum lease payments	$	**62**

11. Sublease rental income

PFM entered into sublease rental agreements with multiple organizations for office space, office equipment and for the use of a portion of the building that was not otherwise occupied by PFM. These sublease agreements ended upon the sale of PFM's property and building in May 2021. Sublease rental income recognized by PFM was $634 and $849 for the years ended June 30, 2021 and 2020, respectively, and is included on the accompanying Consolidated Statements of Activities and Changes in Net Assets.

12. Allocation of joint costs

During 2021 and 2020, PFM incurred joint costs of $9,555 and $7,715, 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:

		2021		2020
Program services	**$**	**1,101**	$	1,111
Supporting services:				
Fundraising		**8,350**		6,448
Management and general		**104**		156
Total	**$**	**9,555**	$	7,715

13. 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.

In June 2021, PFM and PFI entered into a new agreement, which terminated the previous 2013 agreement. As part of the new agreement, PFM paid a lump sum of $4,200 to PFI as a contribution to terminate the previous agreement during the year ended June 30, 2021.

As mentioned in Note 1, PFM will also provide licensing to PFI as part of the new agreement. In exchange for the service, PFI will pay PFM a license fee of $1,400, which is payable in 14 equal annual payments of $100 starting July 2021 through July 2035. The licensing begins in July 2021. Consequently, no income was recorded in connection with this license agreement for the year ended June 30, 2021.

The total amount of monetary support provided by PFM to PFI was $4,953 and $757 in 2021 and 2020, respectively.

14. 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.

($ in Thousands)

15. 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, 2021 and 2020, are as follows:

		2021		2020
Perpetual in nature	**$**	**3,629**	$	3,490
Program assistance		**14,555**		9,742
Time restricted for periods after June 30		**2,909**		2,862
Cumulative unappropriated endowment income – time restricted		**30**		646
Total	**$**	**21,123**	$	16,740

For the years ended June 30, 2021 and 2020, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time releasing time restrictions:

		2021		2020
Program assistance	**$**	**24,926**	$	13,800
Time restrictions expired		**3,326**		1,728
Appropriated endowment income		**1,352**		-
Total	**$**	**29,604**	$	15,528

16. Endowment funds

The Organization had donor-restricted endowment funds totaling $3,629 and $3,490 at June 30, 2021 and 2020. 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, 2021 and 2020, 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.

($ in Thousands)

Endowment net assets composition by type of fund as of June 30, 2021:

	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	$ -	$ 3,629	$ 3,629
Cumulative unappropriated endowment income – time restricted	-	30	30
Total funds	**$ -**	**$ 3,659**	**$ 3,659**

Changes in endowment net assets for the fiscal year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 4,136	$ 4,136
Contributions	-	58	58
Investment return:			
Investment income	-	53	53
Net appreciation (realized and unrealized)	-	683	683
Total investment return	-	736	736
Appropriations of endowment assets for expenditure	-	(1,352)	(1,352)
Change in value of perpetual trusts		81	81
Endowment net assets, end of year	**$ -**	**$ 3,659**	**$ 3,659**

($ 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

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

	2021	2020
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	**$ 3,629**	$ 3,490
Net Assets with Donor Restrictions		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA and without purpose restrictions	**$ 30**	$ 646

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, 2021 and 2020.

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.

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.

17. 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 $356 and $252 as of June 30, 2021 and 2020, 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.

18. Paycheck Protection Program fund

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 Organization used the proceeds from the PPP loan exclusively for qualifying expenses during the year ended June 30, 2020. During the year ended June 30, 2021, the Organization applied for and received forgiveness for the entire amount of the PPP loan in accordance with the terms of the CARES Act. Upon forgiveness, the PPP fund, which was originally classified as a refundable advance in the Consolidated Statements of Financial Position at June 30, 2020, was recognized as revenue and included in the balance of contributions on the Consolidated Statements of Activities and Changes in Net Assets for the year ended June, 2021.