

CONSOLIDATED FINANCIAL STATEMENTS

**PRISON FELLOWSHIP INTERNATIONAL
AND AFFILIATES**

FOR THE SIX MONTHS ENDED JUNE 30, 2021

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Prison Fellowship International and Affiliates
Ashburn, Virginia

We have audited the accompanying consolidated financial statements of the Prison Fellowship International and Affiliates (the Organization), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the six months then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidate 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 audit. We conducted our audit 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.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2021, and the consolidated change in its net assets and its consolidated cash flows for the six months then ended in accordance with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

March 9, 2022

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2021

ASSETS

Cash and cash equivalents	\$ 7,458,750
Contributions receivable, net	3,384,858
Receivables	43,678
Prepaid expenses	112,296
Inventory, net	567,798
Equipment and furniture, net	<u>375,868</u>
TOTAL ASSETS	\$ <u>11,943,248</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued liabilities	\$ 628,694
Loan payable	<u>2,000,000</u>
Total liabilities	<u>2,628,694</u>

NET ASSETS

Without donor restrictions	8,078,213
With donor restrictions	<u>1,236,341</u>
Total net assets	<u>9,314,554</u>

TOTAL LIABILITIES AND NET ASSETS **\$ 11,943,248**

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE SIX MONTHS ENDED JUNE 30, 2021**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions:			
Major gifts	1,181,239	608,297	1,789,536
Mass donors	800,056	133,232	933,288
Mid-level donors	135,355	108,927	244,282
Strategic partnerships	4,579,119	94,518	4,673,637
Interest and other income	3,920	-	3,920
Net assets released from donor restrictions	<u>853,538</u>	<u>(853,538)</u>	<u>-</u>
Total support and revenue	<u>7,553,227</u>	<u>91,436</u>	<u>7,644,663</u>
EXPENSES			
Program Services:			
Prison Programs	2,745,318	-	2,745,318
Children's Programs	1,161,422	-	1,161,422
Capacity Building	280,538	-	280,538
Communication and Education	232,399	-	232,399
Membership Services	<u>62,050</u>	<u>-</u>	<u>62,050</u>
Total program services	<u>4,481,727</u>	<u>-</u>	<u>4,481,727</u>
Supporting Services:			
Fundraising	1,436,405	-	1,436,405
Leadership, Facilities and Administration	<u>162,290</u>	<u>-</u>	<u>162,290</u>
Total supporting services	<u>1,598,695</u>	<u>-</u>	<u>1,598,695</u>
Total expenses	<u>6,080,422</u>	<u>-</u>	<u>6,080,422</u>
Change in net assets before other item	1,472,805	91,436	1,564,241
OTHER ITEM			
Gain on foreign currency transactions and remeasurements	<u>37,956</u>	<u>-</u>	<u>37,956</u>
Change in net assets	1,510,761	91,436	1,602,197
Net assets at beginning of period	<u>6,567,452</u>	<u>1,144,905</u>	<u>7,712,357</u>
NET ASSETS AT END OF PERIOD	<u>\$ 8,078,213</u>	<u>\$ 1,236,341</u>	<u>\$ 9,314,554</u>

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTHS ENDED JUNE 30, 2021

	Program Services					Supporting Services				
	Prison Programs	Children's Programs	Capacity Building	Communications and Education	Membership Services	Total Program Services	Fundraising	Leadership, Facilities and Administration	Total Supporting Services	Total Expenses
Salaries and benefits	\$ 430,040	\$ 311,186	\$ 210,373	\$ 106,506	\$ 33,226	\$ 1,091,331	\$ 676,848	\$ 143,425	\$ 820,273	\$ 1,911,604
Grants and materials donated										
to National Ministries	877,314	612,160	24,516	-	-	1,513,990	507	-	507	1,514,497
Professional fees	186,902	164,728	25,004	99,935	25,653	502,222	569,458	4,008	573,466	1,075,688
Obsolete inventory	863,567	-	-	-	-	863,567	-	-	-	863,567
Printing and postage	260,967	15,114	178	276	37	276,572	43,720	98	43,818	320,390
Occupancy	38,014	22,073	10,109	4,227	1,286	75,709	27,166	2,927	30,093	105,802
Software and licenses	26,209	4,516	1,048	13,692	232	45,697	32,769	606	33,375	79,072
Depreciation	19,190	11,844	2,861	2,370	633	36,898	14,649	1,655	16,304	53,202
Interest	14,428	8,905	2,151	1,782	476	27,742	11,014	1,244	12,258	40,000
Bank fees	5,102	3,070	747	613	162	9,694	43,625	425	44,050	53,744
Travel	13,870	1,912	2,063	247	29	18,121	2,831	76	2,907	21,028
Recruiting and relocation	6,993	4,316	1,043	864	231	13,447	8,636	603	9,239	22,686
Other	2,722	1,598	445	1,887	85	6,737	5,182	7,223	12,405	19,142
TOTAL	\$ 2,745,318	\$ 1,161,422	\$ 280,538	\$ 232,399	\$ 62,050	\$ 4,481,727	\$ 1,436,405	\$ 162,290	\$1,598,695	\$ 6,080,422

See accompanying notes to consolidated financial statements.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,602,197
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	53,202
Change in present value discount	(43,688)
Change in allowance for obsolete inventory	863,567
(Increase) decrease in:	
Receivables	(20,430)
Contributions receivable	342,361
Prepaid expenses	69,333
Inventory	130,980
Increase in:	
Accounts payable and accrued liabilities	<u>316,289</u>
Net cash provided by operating activities	<u>3,313,811</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of equipment and furniture	<u>(39,462)</u>
Net cash used by investing activities	<u>(39,462)</u>
Net increase in cash and cash equivalents	3,274,349
Cash and cash equivalents at beginning of period	<u>4,184,401</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 7,458,750</u>

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Prison Fellowship International and Affiliates (PFI) is a nonprofit organization founded on August 8, 1979, in the District of Columbia. It has national affiliates in over 115 countries, each of which is an independent organization. Its purpose is to provide services to prisoners, ex-prisoners, and their families around the world through its member affiliates. It works to foster mutual support and assistance and promotes the interchange of successful ministry methods among national ministries.

Principles of consolidation -

The accounts of Prison Fellowship International (USA) have been consolidated with Prison Fellowship International at Singapore LTD (PFI Singapore), Prison Fellowship International GmbH (PFI Germany) and Prison Fellowship International Canada (PFI Canada), (collectively, the Organization) in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) which require that financially interrelated organizations be consolidated. All intercompany transactions and balances have been eliminated.

Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions".
- **Net Assets with Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are more restrictive than the Organization's mission and purpose. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash and cash equivalents -

The Organization considers all cash and other highly liquid investments with initial maturities of twelve months or less to be cash equivalents. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, the Organization maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

The Organization maintains international offices located in Singapore, Germany, and Canada. The international offices maintain bank accounts, conduct business, and record transactions in their local currencies.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Cash and cash equivalents (continued) -

The Organization had approximately \$578,500 of cash and cash equivalents held at financial institutions in foreign countries at June 30, 2021. Cash and cash equivalents held in Canada are insured up to \$100,000 CAD per insured category under the CDIC. Cash and cash equivalents held in Germany are insured up to a minimum of €100,000 per depositor and bank under the Deposit Guarantee Act. Cash and cash equivalents held in Singapore are insured up to a minimum of S\$75,000 under the SDIC.

Receivables -

Receivables are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible within one year. Accordingly, an allowance for doubtful accounts has not been established.

Contributions receivable -

The Organization records contributions receivable when an unconditional promise to give is received 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 Statement of Activities and Change in Net Assets. The amount of the allowance, if any, is based on prior years' experience and management's current estimates of potentially uncollectable contributions. There was no allowance at June 30, 2021. Each gift is assessed for collectability and the allowance is reflected within the rate applied to the discount on contributions receivable.

Contributions receivable promised in a foreign currency are remeasured using the current exchange rate at the reporting date. Fluctuations in contributions receivable denominated in foreign currencies are recorded as gains and losses and are included in the contributions receivable balance, until realization, at which time the gain and loss is included in foreign currency transactions and remeasurements on the Consolidated Statement of Activities and Change in Net Assets. Changes in exchange rates after the date on the Consolidated Statement of Financial Position could have an effect on the balance of contributions receivable. Management has deemed that it is impracticable to determine and disclose the effects.

Inventory -

Inventory consists of donated Bibles and other program materials and is measured at the fair value at the date of donation. The inventory is to be distributed to recipients during the normal course of activities. Management determines the allowance for obsolete inventory by identifying non-marketable items and by using historical experience applied to recent disbursed items. The allowance as of June 30, 2021 was \$863,567. Items are written-off when deemed unmarketable.

Equipment and furniture -

Equipment and furniture in excess of \$500 are capitalized and stated at cost. Equipment and furniture are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Depreciation expense for the six months ended June 30, 2021 totaled \$53,202.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to the Consolidated Statement of Activities and Change in Net Assets, to its current fair value.

Income taxes -

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. The Organization is not a private foundation. PFI Singapore is a registered charity in the Republic of Singapore. PFI Germany is a registered charity in Germany. PFI Canada is a registered charity in Canada. The Organization has no unrelated business income.

Uncertain tax positions -

For the six months ended June 30, 2021, the Organization has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Support and revenue -

The Organization's activities are supported by partnership income and contributions. Contributions are recognized in the appropriate category of net assets in the period received. The Organization performs an analysis of the partnership income and contributions to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal under ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

Partnership income and contributions qualifying under the contribution rules is recognized upon notification of the award and satisfaction of all conditions, if applicable. If the contribution is deemed unconditional and has donor restrictions it is recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying consolidated financial statements.

Conditional contributions contain a right of return from obligation provision that limits the Organization on how funds transferred should be spent. Additionally, a barrier is present that is related to the purpose of the agreement. Revenue is recognized when the condition or conditions on which they depend are substantially met. Funds received in advance of substantially meeting the conditions are recorded as refundable advances. For contributions treated as conditional contributions, the Organization had no unrecognized awards as of June 30, 2021.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Support and revenue (continued) -

Charter membership fees are contributions from affiliate members. Each affiliate member organization is to pay an annual contribution to the Organization. The affiliates tier within the system is based on its size and annual revenues. Tier one affiliates contributed 4% of their annual revenue. Tier two affiliates contribute a flat rate of \$100. Charter membership fees are recognized when received or unconditionally promised.

Major gifts consists of contributed Bibles and office space that is rented at a below market rate. Donated goods are recorded at their fair value as of the date of the gift. For the Organization's policy on recording donated facilities, see more detail in Notes 9 and 10.

Foreign currency translation -

The U.S. Dollar is the functional currency for the Organization's worldwide operations. Assets and liabilities denominated in currencies other than U.S. Dollars are translated into Dollars at the exchange rate in effect at the date of the Consolidated Statement of Financial Position. Transactions in currencies other than U.S. Dollars are translated into dollars at the rate of exchange in effect during the month of the transaction. Gains or losses from exchange transactions resulting in foreign currency are recognized as a non-operating expense on the accompanying Consolidated Statement of Activities and Change in Net Assets.

Use of estimates -

The preparation of the 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 at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of the Organization are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact the Organization's operations. The overall potential impact is unknown at this time.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

New accounting pronouncements not yet adopted -

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this ASU address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The amendment will not change the recognition and measurement requirements for those contributed nonfinancial assets.

ASU 2019-01, *Leases* (Topic 842), changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Consolidated Statement of Financial Position and disclosing key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

The Organization plans to adopt the new ASUs at the required implementation dates and management is currently in the process of evaluating the adoption methods and the impact of the new standards on its accompanying consolidated financial statements.

2. CONTRIBUTIONS RECEIVABLE

As of June 30, 2021, contributors to the Organization have made unconditional written promises to give, of which \$3,487,895, remained due and outstanding. Amounts due beyond one year of the Consolidated Statement of Financial Position date have been recorded at the present value of the estimated cash flows, using a discount rate ranging from 0.83% to 4.03%.

Following is a schedule of amounts due, by year, as of June 30, 2021:

Less than one year	\$ 170,890
One to five years	<u>3,317,005</u>
Total	3,487,895
Less: Allowance to discount balance to present value	<u>(103,037)</u>
NET CONTRIBUTIONS RECEIVABLE	<u>\$ 3,384,858</u>

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

3. EQUIPMENT AND FURNITURE

Equipment and furniture consisted of the following at June 30, 2021:

Equipment	\$ 23,460
Furniture	4,272
Computer equipment	<u>580,456</u>
 Total fixed assets	 608,188
Less: Accumulated depreciation	<u>(232,320)</u>
 NET EQUIPMENT AND FURNITURE	 <u>\$ 375,868</u>

4. LINE OF CREDIT

The Organization has a line of credit in the amount of \$100,000 with a bank in Virginia. The line of credit bears interest at *The Wall Street Journal* Prime Rate and is renewed each year. At June 30, 2021, the Organization had no indebtedness under the line of credit.

5. LOAN PAYABLE

The Organization has a loan payable in the amount of \$2,000,000 with a foreign entity. The loan bears an interest at a fixed rate of 4% with a maturity date of December 31, 2026. Payments on the loan with the foreign entity will be based upon excess cash flow of the Organization. The outstanding balance was \$2,000,000 at June 30, 2021. Interest expense was \$40,000 for the six months ended June 30, 2021. The loan payable is associated with a member of the Organization's Board of Directors.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30, 2021:

Subject to expenditure for specified purpose:	
Capacity Building	\$ 441,815
Children's Programs	328,612
Prison Programs	224,813
Other	<u>112,535</u>
 Subtotal	 1,107,775
Subject to passage of time	38,566
Endowment to be invested in perpetuity	<u>90,000</u>
 TOTAL NET ASSETS WITH DONOR RESTRICTIONS	 <u>\$ 1,236,341</u>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Purpose restrictions accomplished:	
Capacity Building	\$ 103,856
Children's Programs	389,192
Prison Programs	<u>360,490</u>
 TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	 <u>\$ 853,538</u>

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

7. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Consolidated Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 7,458,750
Receivables	43,678
Contributions receivable	<u>170,890</u>
Subtotal financial assets available within one year	7,673,318
Less: In-kind contributions receivable	(96,281)
Less: Donor restricted funds for purpose and time restrictions	(1,326,341)
Less: Donor restricted fund for endowment	<u>(90,000)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 6,160,696</u>

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments. The Organization also has various sources of liquidity at its disposal, including cash and cash equivalents and an available \$100,000 of additional line of credit.

8. DONATED GOODS AND FACILITIES

During the six months ended June 30, 2021, the Organization was the beneficiary of donated rent which allowed the Organization to provide greater resources toward various programs. To properly reflect total expenses, donated rent has been included in revenue and expense for the six months ended June 30, 2021.

Donated Rent	<u>\$ 23,220</u>
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The following programs have benefited from these donated services:

Leadership, Facilities and Administration	<u>\$ 23,220</u>
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9. RETIREMENT PLAN

The Organization provides retirement benefits to its employees through a defined contribution plan covering all qualifying United States employees. The Organization's plan consists of mandatory employee contributions of 2% of their annual salary with the Organization currently contributing 4% of their annual salary. Employees vest 100% in all contributions as they are made. International employees receive retirement benefits in accordance with laws in their respective locations. Retirement expense for all employees during the six months ended June 30, 2021 totaled \$39,457.

10. STRATEGIC PARTNER

Prison Fellowship USA (PF USA) and the Organization previously entered into a Ministry Agreement to foster the global expansion of the prison ministry in the United States and around the world through collaborative efforts between the two organizations. Per the agreement, the Organization received conditional monthly payments, extended over an initial seven-year period. Revenue from the agreement is recognized on the Consolidated Statement of Activities and Change in Net Assets as charter fees and ministry agreement revenue.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

10. STRATEGIC PARTNER (Continued)

In June 2021, the agreement was terminated and replaced with a trademark licensing agreement. As a result of the termination, PF USA provided a lump sum payment of \$4,200,000 in June of 2021, which is included in Partnership agreements on the accompanying Consolidated Statement of Activities and Change in Net Assets. In consideration of the licenses granted, PFI shall pay PF USA license fees totaling \$25,000 quarterly, beginning October 31, 2021 through July 31, 2035. The agreement expires on July 31, 2035 with automatic renewal for a successive ten year term unless terminated earlier.

The Organization maintained its offices in the Lansdowne, Virginia facility owned by PF USA and agreed to pay as rent a share of the facility operating expenses proportionate to the space it occupied in the building. In 2019, the Organization and PF USA entered into a revised Ministry Co-Location Agreement for the term July 1, 2019 through June 30, 2021. The agreement called for the Organization to lease 4,810 of square feed in the building for a below market month rate of \$6,413 for the first 12 months and \$6,606 for the remaining 12 months of the term.

PF USA sold the building before the expiration of the agreement term. PF USA provided 30 days' notice to the Organization to vacate the building and the agreement was terminated effective May 31, 2021. The amounts paid to PF USA for rent for the six months ended June 30, 2021 was \$54,134. The difference between the amount paid and the estimated market rate rent for comparable office space was recorded as both a contribution of \$23,220 from PF USA and as rent expense.

11. COMMITMENTS

At June 30, 2021, the Organization has committed approximately \$875,000 in conditional grants. The amounts will be expensed as the grantee materially satisfies the conditions stipulated.

The Organization signed a new lease agreement commencing October 1, 2021 through June 30, 2025. The lease agreement has a beginning rate of approximately \$159,000 with escalations of 2.5% per lease year. The Organization has determined the rate charged is for a below market rate and the difference between the amount paid and the estimated market rate rent for comparable office space will be recorded as both a contribution and rent expense.

The following is a schedule of the future minimum lease payments:

<u>Year Ending June 30,</u>	
2022	\$ 132,633
2023	162,476
2024	166,538
2025	<u>170,716</u>
	<u>\$ 632,363</u>

12. ENDOWMENT

The Organization's endowment consists of donor-restricted endowment funds in the amount of \$90,000. This amount is included in cash and cash equivalents as of June 30, 2021. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

12. ENDOWMENT (Continued)

Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

13. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 9, 2022, the date the consolidated financial statements were issued.