

**PRISON FELLOWSHIP INTERNATIONAL AND
AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

Prison Fellowship International and Affiliate

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Independent Auditor's Report

To the Board of Directors of
Prison Fellowship International and Affiliate
Lansdowne, Virginia

We have audited the accompanying consolidated financial statements of **Prison Fellowship International and Affiliate** (a nonprofit organization), which comprise the Consolidated Statement of Financial Position as of December 31, 2014, the related Consolidated Statements of Activities and Changes in Net Assets, Functional Expenses, and Cash Flows for the year 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 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.

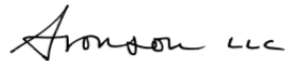
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,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

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 International and Affiliate** as of December 31, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Rockville, Maryland
March 26, 2015

Prison Fellowship International and Affiliate

Consolidated Statement of Financial Position

<i>December 31,</i>	<i>2014</i>
Assets	
Current assets	
Cash and cash equivalents	\$ 944,283
Investments	1,294,263
Certificates of deposit	1,144,128
Contributions receivable, net	445,592
Accounts receivable	18,894
Inventory	39,506
Prepaid expenses	248,523
Total current assets	4,135,189
Other assets	
Certificates of deposit held for long term use	90,000
Contributions receivable, net of current and allowance	8,093
Equipment and furniture, net	267,311
Total other assets	365,404
Total assets	\$ 4,500,593
Liabilities and Net Assets	
Current liabilities	
Accounts payable and accrued expenses	\$ 415,995
Net assets	
Unrestricted	3,501,025
Temporarily restricted	493,573
Permanently restricted	90,000
Total net assets	4,084,598
Total liabilities and net assets	\$ 4,500,593

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

Prison Fellowship International and Affiliate

Consolidated Statement of Activities and Changes in Net Assets

<i>Year Ended December 31, 2014</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Charter membership fees	\$ 297,175	\$ -	\$ -	\$ 297,175
Ministry agreement revenue	3,500,000	-	-	3,500,000
Contributions	334,515	1,064,429	-	1,398,944
Contributed rent and other	105,741	186,623	-	292,364
Investment income, net	63,585	729	-	64,314
Other income	10,187	-	-	10,187
Net assets released from restrictions	2,927,937	(2,927,937)	-	-
Total revenues	7,239,140	(1,676,156)	-	5,562,984
Expenses				
Program services:				
Capacity building	1,982,330	-	-	1,982,330
Children of Prisoners Program	2,286,565	-	-	2,286,565
The Prisoner's Journey	764,037	-	-	764,037
Other strategic initiatives	118,969	-	-	118,969
Total program services	5,151,901	-	-	5,151,901
Supporting services:				
Ministry advancement / fundraising	1,558,335	-	-	1,558,335
Leadership, facilities and administration	539,968	-	-	539,968
Total supporting services	2,098,303	-	-	2,098,303
Total expenses	7,250,204	-	-	7,250,204
Change in net assets	(11,064)	(1,676,156)	-	(1,687,220)
Net assets, at beginning of year	3,512,089	2,169,729	90,000	5,771,818
Net assets, at end of year	\$ 3,501,025	\$ 493,573	\$ 90,000	\$ 4,084,598

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

Prison Fellowship International and Affiliate

Consolidated Statement of Functional Expenses

<i>Year Ended December 31, 2014</i>	Program services					Supporting services		Total
	Capacity Building	Children of Prisoners Program	The Prisoner's Journey	Other Strategic Initiatives	Total Program Services	Ministry Advancement / Fundraising	Leadership, Facilities and Administration	
Salaries and benefits	\$ 660,817	\$ 243,318	\$ 193,345	\$ 71,443	\$ 1,168,923	\$ 265,852	\$ 1,083,547	\$ 2,518,322
Professional fees	138,370	906,926	211,313	4,300	1,260,909	816,761	235,138	2,312,808
Travel	320,363	59,352	85,166	4,516	469,397	97,190	197,199	763,786
Ministry development/field support	92,674	461,954	59,664	12,436	626,728	300	1,076	628,104
Envoy contracts	158,421	106,325	-	-	264,746	-	8,750	273,496
Rent	1,160	1,200	2,160	-	4,520	3,160	210,293	217,973
Conferences and meetings	89,031	1,374	132	54	90,591	2,614	22,277	115,482
Printing and postage	34,198	1,643	42,550	12	78,403	12,383	11,850	102,636
Telephone and internet	30,691	2,769	1,472	877	35,809	9,795	32,656	78,260
Depreciation and amortization	16,224	12,380	-	-	28,604	4,403	34,241	67,248
Audit and legal	5,145	68	1,967	-	7,180	1,500	47,869	56,549
Repairs, maintenance, and supplies	9,484	3,042	326	-	12,852	5,304	25,922	44,078
Bank fees, interest, and bad debt	912	61	2	-	975	5,107	30,399	36,481
Miscellaneous expenses	4,014	742	3,744	75	8,575	3,150	11,356	23,081
Insurance	-	-	-	-	-	-	11,900	11,900
Sub-total	1,561,504	1,801,154	601,841	93,713	4,058,212	1,227,519	1,964,473	7,250,204
Leadership, facilities and administrative costs	420,826	485,411	162,196	25,256	1,093,689	330,816	(1,424,505)	-
Total	\$ 1,982,330	\$ 2,286,565	\$ 764,037	\$ 118,969	\$ 5,151,901	\$ 1,558,335	\$ 539,968	\$ 7,250,204

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

Prison Fellowship International and Affiliate

Consolidated Statement of Cash Flows

<i>Year Ended December 31,</i>	2014
Cash flows from operating activities	
Change in net assets	\$ (1,687,220)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation and amortization	67,248
Net realized and unrealized gain on investments	(49,444)
Provision for doubtful contributions receivable	25,000
(Increase) decrease in:	
Contributions receivable	(357,107)
Accounts receivable	(19,433)
Inventory	(23,820)
Prepaid expenses	13,801
Increase (decrease) in:	
Accounts payable and accrued expenses	55,487
Net cash used in operating activities	(1,975,488)
Cash flows from investing activities	
Proceeds from maturities of certificates of deposit	2,332,956
Proceeds from sale of investments	1,045,928
Purchase of certificates of deposit	(99,000)
Purchase of investments	(1,375,098)
Purchase of equipment and furniture	(249,646)
Net cash provided by investing activities	1,655,140
Net change in cash and cash equivalents	(320,348)
Cash and cash equivalents, beginning of year	1,264,631
Cash and cash equivalents, end of year	\$ 944,283

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

Prison Fellowship International and Affiliate

Notes to Consolidated Financial Statements

1. Organization and significant accounting policies

Prison Fellowship International (PFI) is a not-for-profit organization founded on August 8, 1979, in the District of Columbia. It has national affiliates in over 125 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 accompanying consolidated financial statements include the accounts of PFI and Prison Fellowship International at Singapore LTD (PFI Singapore). PFI controls and has an economic interest in PFI Singapore. All significant intercompany transactions and accounts have been eliminated in consolidation. For the purposes of this report, the two entities are referred to collectively as “the Organization.”

Basis of accounting: The accounts of the Organization are maintained on the accrual basis of accounting whereby support is recognized when earned, and costs and expenses are recognized when incurred.

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

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations. Includes undesignated net assets available for general operations and unrestricted net assets designated by the Board of Directors for certain current and future ministry projects and activities.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization may use all or part of the income earned on these assets for specific purposes.

Cash and cash equivalents: The Organization considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The Organization maintains cash balances which may exceed federally insured limits. Management does not believe that this results in any significant credit risk.

Prison Fellowship International and Affiliate

Notes to Consolidated Financial Statements

Foreign currency: PFI maintains an international office located in Singapore (PFI Singapore) and an international office which is not a separate entity, located in Switzerland. The international offices maintain bank accounts, conduct business and record transactions in their local currencies. Gains or losses from exchange transactions resulting in foreign currency are recognized in operations.

Investments: Investments consist of mutual funds and exchange traded funds, which are recorded at fair value using quoted market prices. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the Consolidated Statement of Activities and Changes in Net Assets. Dividends and interest are recognized as they are earned. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is recorded as unrestricted income, unless restricted by donor or law.

Certificates of deposit: Certificates of deposit are carried at cost plus accrued interest. The certificates bear interest rates of 0.64% to 1.2% and have original maturities of three months to three years, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the consolidated financial statements.

Fair value: The Organization values investments 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 requires the reporting entity to develop its own assumptions.

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. There have been no changes in the fair value methodologies used during the year ended December 31, 2014.

Prison Fellowship International and Affiliate

Notes to Consolidated Financial Statements

Contributions receivable: The Organization records contributions receivable when an unconditional promise to give is made. Contributions receivable are reported as either temporarily or permanently restricted support unless explicit donor stipulations or circumstances surrounding the pledge 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 Statement of Activities and Changes in Net Assets. Management has recorded an allowance for doubtful contributions receivable of \$25,000 as of December 31, 2014. The amount of the allowance, if any, is based on prior years' experience and management's current estimates of potentially uncollectible contributions.

Accounts receivable: The Organization uses the allowance method to estimate the amounts, if any, of its accounts receivable that are considered uncollectible. The amount of the allowance, if any, is based on prior years' experience and management's current estimates of potentially uncollectible accounts. Accounts receivable are deemed to be past due based on a contractual term of 30 days. At December 31, 2014, the Organization determined that no allowance was necessary as all amounts are expected to be received.

Inventory: Inventory is recorded at the lower of cost, using the weighted average method, or market. At December 31, 2014, inventory consisted of Bibles, books and videos.

Equipment and furniture: The Organization capitalizes all expenditures for equipment and furniture in excess of \$500. Equipment and furniture includes capitalized computer hardware and software and are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, which is generally three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful life or the remaining lease term. Expenses that do not materially extend the useful life of an asset are expensed in the current period. Any gain or loss that may result from the sale or disposition of an asset is recorded as a revenue or expense in the year that the transaction occurs.

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.

Prison Fellowship International and Affiliate

Notes to Consolidated Financial Statements

Charter membership fees: Each affiliate member organization is to pay an annual contribution to PFI, which approximates 6% of the annual revenue of the affiliate organization. In certain cases, PFI will accept a discretionary “in-kind” contribution from an affiliate who does not have the ability to pay. Charter membership fees, which are self-determined and reported by the affiliates, are recognized upon receipt since that is the point at which PFI is assured of the amount and collection.

Ministry agreement revenue: The Organization receives conditional contributions which are recorded as support and revenues when received and the conditions are met. See Note 8 which further discusses the agreement to which these contributions relate.

Contributions: The Organization records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor temporarily restricted contributions are recorded as temporarily restricted support and are then reclassified to unrestricted net assets upon fulfillment of the restriction. Donor permanently restricted contributions are reported and remain as permanently restricted net assets. The Organization treats gifts of long-lived assets and gifts of cash for long-lived assets without donor use restrictions as having implied time restrictions that expire over the useful life of the donated assets. Gifts of long-lived assets are recorded at fair value when received or promised.

Contributed rent and other: The Organization rents office space at a below market rate. The difference between the estimated rental market rate for comparable office space and the amount actually charged is recorded as contributed rent in the Consolidated Statement of Activities and Changes in Net Assets. The Organization receives contributed equipment and software from various organizations, which are temporarily restricted for a specific geographic region, program, or time. The supplies are recorded at fair value when received or promised and are reflected in the accompanying consolidated financial statements as temporarily restricted revenue and ministry development/ field support. The software is recorded at fair value when received or promised and is reflected in the accompanying consolidated financial statements as temporarily restricted revenue and will be released as depreciation.

Prison Fellowship International and Affiliate

Notes to Consolidated Financial Statements

Program services: Ministry services encompasses those activities related to:

- Conducting Christian programs in prisons around the world through agreements with selected national affiliates.
- Providing medical, educational, spiritual and residential services to the children of prisoners in developing world countries through agreements with selected national affiliates.
- Providing criminal justice and restorative justice consultation and programs to national affiliates, public officials and others through its Centre for Justice and Reconciliation.
- Supporting national PFI ministries through board and staff development, training, program planning and implementation, strategic projects, material and technical assistance, ministry promotion, and resource development.

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 Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Costs of joint activities: The Organization accounts for costs of joint activities which are part fundraising and have elements of one or more other functions, such as program services or leadership, facilities and administration according to certain criteria of purpose, audience and content in order to allocate any portion of the costs of joint activities to a functional area other than fundraising.

Income taxes: PFI is a Section 501(c)(3) not-for-profit corporation exempt from federal income taxes as provided under section 501(a) of the Internal Revenue Code and applicable regulations of the District of Columbia. PFI Singapore is a registered charity in the Republic of Singapore. The Organization has no unrelated business income.

Uncertainty in income taxes: The Organization 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 December 31, 2014, 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 2011 through the current year remain open for examination by federal and state taxing authorities.

Use of accounting estimates: The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prison Fellowship International and Affiliate

Notes to Consolidated Financial Statements

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through March 26, 2015, which is the date the financial statements were available to be issued.

New accounting standard adopted during 2014: In October 2012 the Financial Accounting Standards Board issued Accounting Standards Update 2012-05 (“ASU 2012-05”) Statement of Cash Flows (Topic 230): *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. ASU 2012-05 requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets that upon receipt were converted nearly immediately into cash consistently with cash donations in the Statement of Cash Flows. Accordingly, cash receipts from the sale of donated securities with no donor-imposed restrictions should be included in the operating section of the Statement of Cash Flows, while cash receipts from the sale of donated securities with donor-imposed long-term restrictions should be classified as financing activities. Otherwise, receipts from the sale of donated financial assets should be classified as cash flows from investing activities. This ASU is effective prospectively for fiscal years beginning after June 15, 2013. Retrospective application and early application are permitted, but not required.

The Organization has elected to adopt ASU 2012-05 prospectively for the year ended December 31, 2014. There was no impact on the financial statements upon adoption of this standard.

2. Investments

Investments are comprised of the following at December 31, 2014:

Mutual funds		
Fixed income	\$	549,146
Domestic equity		57,779
International equity		26,315
Exchange traded funds		
Fixed income		620,121
Domestic equity		40,902
Total investments	\$	1,294,263

Prison Fellowship International and Affiliate

Notes to Consolidated Financial Statements

The fair value of the Organization's investments is as follows:

December 31, 2014	Total	Fair Value Measurements		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	No Quoted Prices In Active Markets nor Observable Inputs (Level 3)
Mutual funds				
Fixed income	\$ 549,146	\$ 549,146	-	-
Domestic equity	57,779	57,779	-	-
International equity	26,315	26,315	-	-
Exchange traded funds				
Fixed income	620,121	620,121	-	-
Domestic equity	40,902	40,902	-	-
Total investments	\$ 1,294,263	\$ 1,294,263	-	-

3. Investment income

Investment income (which includes interest earned on certificates of deposit) is comprised of the following for the year ended December 31, 2014:

Income:	
Interest	\$ 28,029
Dividends	23,103
Foreign currency loss	(36,262)
	14,870
Other change in investments:	
Net realized and unrealized gain	49,444
	\$ 64,314

4. Contributions receivable

Contributions receivable are summarized as follows at December 31, 2014:

Unconditional promises expected to be collected in:	
Less than one year	\$ 445,592
One to five years	33,093
Less:	
Allowance for doubtful contributions receivable	(25,000)
	\$ 453,685

Prison Fellowship International and Affiliate

Notes to Consolidated Financial Statements

5. Equipment and furniture

Equipment and furniture consists of the following at December 31, 2014:

Equipment and furniture	\$	60,936
Computer hardware		38,289
Computer software		326,906
Leasehold improvements		33,492
<u>Total equipment and furniture</u>		<u>459,623</u>
Less: Accumulated depreciation and amortization		(192,312)
<u>Equipment and furniture, net</u>	\$	<u>267,311</u>

Depreciation and amortization expense for the year ended December 31, 2014 was \$67,248.

6. Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at December 31, 2014:

Children of Prisoners	\$	309,482
The Prisoner's Journey		26,037
Capacity building		11,417
Ministry support		102,543
Time restricted		44,094
<u>Total</u>	\$	<u>493,573</u>

Temporarily restricted net assets were released from restriction during the year ended December 31, 2014 as follows:

Children of Prisoners	\$	1,686,695
The Prisoner's Journey		292,265
Capacity building		866,472
Ministry support		30,020
Time restricted		52,485
<u>Total</u>	\$	<u>2,927,937</u>

Prison Fellowship International and Affiliate

Notes to Consolidated Financial Statements

7. Endowment funds

The Organization's endowment consists of three individual funds established for a variety of purposes. Its endowment includes donor restricted endowment funds. As required by 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

Management of the Organization has interpreted the 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. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is classified in temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard 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;
7. The investment policies of the organization.

Endowment Net Assets Composition by Type of Fund as of December 31, 2014:

	2014
	Permanently Restricted
Donor-restricted endowment funds	<u>\$ 90,000</u>

Prison Fellowship International and Affiliate

Notes to Consolidated Financial Statements

Change in endowment net assets for the year ended December 31, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 90,000	\$ 90,000
Investment income	729	-	-
Appropriation of endowment assets for expenditure	(729)	-	-
Endowment net assets, end of year	\$ -	\$ 90,000	\$ 90,000

Description of amounts classified as permanently restricted net assets as of December 31, 2014:

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ 90,000
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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 Organization to retain as a fund of perpetual duration. There was no such deficiency as of December 31, 2014.

Return Objectives and Risk Parameters

The Organization 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 preserve the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold for a donor-specified period. Under this policy, as approved by Management, the endowment assets are invested in certificates of deposit to assume a low level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a return strategy in which investment returns are achieved through current yield (interest and dividends).

Prison Fellowship International and Affiliate

Notes to Consolidated Financial Statements

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year the income earned on the endowment funds. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to remain consistent. This is consistent with the Organization's objective to preserve 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.

8. Related party transactions

Prison Fellowship USA ("PF USA") is the United States of America chartered affiliate of PFI. PF USA collects certain donations and pays certain expenses on behalf of PFI with excess amounts recorded as due from or payable to PFI each month. At December 31, 2014, PFI had amounts due to PF USA totaling \$20,656, which are included in accounts payable and accrued expenses on the accompanying Consolidated Statement of Financial Position.

In 2013, PFI and PF USA 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, PFI is to receive conditional monthly payments which extend over an initial seven year period. The agreement is set to automatically renew for additional seven year terms, provided early termination has not been exercised. As of December 31, 2014, the remaining conditional promise to give for the initial seven year term ending on May 31, 2020 totaled \$8,450,000, which is not reflected in the accompanying Consolidated Statement of Financial Position. Revenue from the agreement is recognized on the Consolidated Statement of Activities and Changes in Net Assets as Ministry agreement revenue.

PFI maintains its offices in the Lansdowne, Virginia facility owned by PF USA and has agreed to pay as rent a share of the facility operating expenses proportionate to the space it occupies in the building. The amounts paid to PF USA for rent for the year ended December 31, 2014, was \$43,501. The difference between the amount paid and the estimated market rate rent for comparable office space was recorded as a \$80,109 contribution from PF USA and as rent expense in 2014.

9. Commitments

The Organization entered into several office space operating leases for both international field offices and for the United States office. The leases expired at various dates through 2014. These leases were treated as operating leases in the financial statements.

Rent expense for 2014 was \$217,973, including \$105,742 of contributed rent from PF USA and Overseas Missionary Fellowship ("OMF") International, an unrelated not-for-profit religious organization.

Prison Fellowship International and Affiliate

Notes to Consolidated Financial Statements

10. Allocation of joint costs The Organization conducts activities that include fund-raising appeals, as well as program and management and general components. These activities include a television campaign that was aired in 2014. The costs of conducting these joint activities were comprised of the following for the year ended December 31, 2014:

Children of Prisoners Program	\$	720,788
Ministry advancement – fundraising		172,989
Leadership, facilities and administration		67,273
<hr/>		
Total	\$	961,050

11. Line of credit The Organization has a line of credit in the amount of \$100,000 with a bank in Virginia. Advances bear interest at the Wall Street Journal Prime Rate. The agreement is renewed each year. At December 31, 2014, the Organization had no indebtedness under the line of credit.

13. Retirement plan The Organization sponsors a defined contribution retirement plan (the “Plan”) covering qualifying United States employees, as defined in the Plan agreement. Employees are eligible for participation in the Plan after one year of employment. The 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 for 2014 was \$62,938.

14. Concentrations In 2014, the Organization received 63% of its total revenue from one entity through the ministry agreement described in Note 8.