# Prison Fellowship International and Affiliates

Consolidated Financial Report
December 31, 2017

**Contents**

RSM US LLP

**Independent Auditor's Report**

To the Board of Directors
Prison Fellowship International

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Prison Fellowship International and Affiliates (PFI), which comprise the consolidated statement of financial position as of December 31, 2017, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PFI as of December 31, 2017, 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.

**Other Matter**

The financial statements of PFI, as of and for the year ended December 31, 2016, were previously audited by other auditors whose report, dated May 8, 2017, expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
August 22, 2018

**Prison Fellowship International and Affiliates**

**Consolidated Statement of Financial Position**
**December 31, 2017**
**(With Comparative Totals for 2016)**

| | **2017** | 2016 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 2,172,291** | $ 2,093,115 |
| Contributions receivable, current portion | **1,159,065** | 1,661,714 |
| Accounts receivable, net | **41,503** | 7,569 |
| Prepaid expenses | **198,710** | 152,894 |
| **Total current assets** | **3,571,569** | 3,915,292 |
| Other assets: | | |
| Contributions receivable, net of current portion and discount | **1,020,840** | 1,401,457 |
| Investments | **449,511** | 1,010 |
| Equipment and furniture, net | **70,979** | 122,052 |
| Inventory | **3,575,516** | 2,296,880 |
| **Total other assets** | **5,116,846** | 3,821,399 |
| **Total assets** | **$ 8,688,415** | $ 7,736,691 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | **$ 284,093** | $ 212,304 |
| Net assets: | | |
| Unrestricted | **5,193,947** | 4,069,563 |
| Temporarily restricted | **3,120,375** | 3,364,824 |
| Permanently restricted | **90,000** | 90,000 |
| **Total net assets** | **8,404,322** | 7,524,387 |
| **Total liabilities and net assets** | **$ 8,688,415** | $ 7,736,691 |

See notes to consolidated financial statements.

**Prison Fellowship International and Affiliates**

**Consolidated Statement of Activities**
**Year Ended December 31, 2017**
**(With Comparative Totals for 2016)**

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** | 2016 Total |
| Support and revenues: | | | | | |
| Charter membership fees | **$ 108,267** | **$ -** | **$ -** | **$ 108,267** | $ 179,106 |
| Ministry agreement revenue | **1,400,000** | **-** | **-** | **1,400,000** | 2,100,000 |
| Contributions: | | | | | |
| Foundations, churches and corporate grants | **20,000** | **1,439,827** | **-** | **1,459,827** | 1,494,447 |
| Major donors | **159,700** | **1,066,341** | **-** | **1,226,041** | 1,285,331 |
| Mid-level donors | **84,377** | **33,212** | **-** | **117,589** | 121,509 |
| Mass donors | **48,057** | **1,021,767** | **-** | **1,069,824** | 435,599 |
| Ticket sales | **161,856** | **-** | **-** | **161,856** | 84,978 |
| Donated goods and facilities | **1,896,053** | **-** | **-** | **1,896,053** | 2,379,867 |
| Investment income, net | **2,440** | **-** | **-** | **2,440** | 26,467 |
| Gain (loss) on foreign currency transactions and remeasurements | **147,221** | **-** | **-** | **147,221** | (115,703) |
| Other income | **7,724** | **-** | **-** | **7,724** | 7,178 |
| Net assets released from restrictions | **3,805,596** | **(3,805,596)** | **-** | **-** | - |
| **Total support and revenues** | **7,841,291** | **(244,449)** | **-** | **7,596,842** | 7,998,779 |
| Expenses and losses: | | | | | |
| Program services: | | | | | |
| The Prisoner's Journey | **2,687,294** | **-** | **-** | **2,687,294** | 1,772,029 |
| Children of Prisoners Program | **1,596,364** | **-** | **-** | **1,596,364** | 1,595,317 |
| Education & Communication | **312,379** | **-** | **-** | **312,379** | 363,181 |
| Sycamore Tree Project | **287,681** | **-** | **-** | **287,681** | 368,516 |
| Capacity Building | **221,899** | **-** | **-** | **221,899** | 586,116 |
| **Total program services** | **5,105,617** | **-** | **-** | **5,105,617** | 4,685,159 |
| Supporting services: | | | | | |
| Ministry advancement/fundraising | **1,085,346** | **-** | **-** | **1,085,346** | 1,303,784 |
| Leadership, facilities and administration | **441,231** | **-** | **-** | **441,231** | 466,497 |
| **Total supporting services** | **1,526,577** | **-** | **-** | **1,526,577** | 1,770,281 |
| **Total expenses** | **6,632,194** | **-** | **-** | **6,632,194** | 6,455,440 |
| Loss on promises to give | **84,713** | **-** | **-** | **84,713** | 60,000 |
| **Total expenses and losses** | **6,716,907** | **-** | **-** | **6,716,907** | 6,515,440 |
| **Change in net assets** | **1,124,384** | **(244,449)** | **-** | **879,935** | 1,483,339 |
| Net assets: | | | | | |
| Beginning of year | **4,069,563** | **3,364,824** | **90,000** | **7,524,387** | 6,041,048 |
| End of year | **$ 5,193,947** | **$ 3,120,375** | **$ 90,000** | **$ 8,404,322** | $ 7,524,387 |

See notes to consolidated financial statements.

**Prison Fellowship International and Affiliates**

**Consolidated Statement of Functional Expenses**
**Year Ended December 31, 2017**
**(With Comparative Totals for 2016)**

| | 2017 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Program Services | | | | | | | Supporting Services | | | |
| | The Prisoner's Journey | Children of Prisoners Program | Capacity Building | Sycamore Tree New Leaf | Communications & Education | Field Operations & Program Management | Total Program Services | Ministry Advancement/ Fundraising | Leadership, Facilities and Administration | Total | 2016 Total |
| Salaries and benefits | $ 275,129 | $ 103,833 | $ 67,430 | $ 116,971 | $ 128,115 | $ 409,980 | $ 1,101,458 | $ 510,656 | $ 387,063 | $ 1,999,177 | $ 2,206,732 |
| Ministry development/field support | 1,004,028 | 739,266 | 6,500 | 42,935 | 12,116 | - | 1,804,845 | 746 | 325 | 1,805,916 | 1,385,159 |
| Professional fees | 165,188 | 206,230 | 12,730 | 24,885 | 24,030 | - | 433,063 | 207,802 | 81,460 | 722,325 | 751,831 |
| Travel | 107,992 | 56,649 | 87,356 | 4,951 | 10,899 | 25,211 | 293,058 | 124,085 | 62,910 | 480,053 | 535,267 |
| Printing and postage | 313,543 | 5,772 | 473 | 433 | 29,157 | 688 | 350,066 | 36,612 | 10,087 | 396,765 | 252,061 |
| Regional director contracts | - | 131,225 | 181,117 | 29,977 | - | - | 342,319 | - | - | 342,319 | 355,959 |
| Repairs, maintenance and supplies | 223,355 | 4,611 | 887 | 769 | 5,376 | 15,256 | 250,254 | 7,165 | 13,294 | 270,713 | 382,977 |
| Conferences and meetings | 46,664 | 20,739 | 5,619 | 257 | 11,332 | 5,439 | 90,050 | 25,828 | 50,087 | 165,965 | 94,589 |
| Rent | - | 3,600 | 6,318 | - | - | - | 9,918 | - | 99,247 | 109,165 | 110,701 |
| Depreciation | - | 5,492 | 1,897 | 9,405 | 28,885 | 72 | 45,751 | 9,405 | 12,091 | 67,247 | 111,102 |
| Telephone and internet | 601 | 2,138 | 3,749 | 938 | 6,974 | 582 | 14,982 | 39,652 | 10,599 | 65,233 | 66,650 |
| Audit and legal | 7,276 | 1,824 | - | - | - | 3,337 | 12,437 | 1,824 | 46,440 | 60,701 | 58,333 |
| Bank fees, interest and bad debt | 505 | 7,040 | 1,981 | - | 15 | - | 9,541 | 36,859 | 6,473 | 52,873 | 66,732 |
| Miscellaneous expenses | 249 | 14,966 | 1,099 | 55 | 5,895 | - | 22,264 | 16,809 | 8,339 | 47,412 | 29,269 |
| Subscriptions and licenses | 18,679 | - | 35 | - | 1,200 | - | 19,914 | 2,918 | 2,104 | 24,936 | 26,323 |
| Insurance | - | - | - | - | - | - | - | - | 21,394 | 21,394 | 21,755 |
| Field operations and program management | 363,185 | 197,397 | (168,578) | 38,880 | 29,681 | (460,565) | - | - | - | - | - |
| **Subtotal** | 2,526,394 | 1,500,782 | 208,613 | 270,456 | 293,675 | - | 4,799,920 | 1,020,361 | 811,913 | 6,632,194 | 6,455,440 |
| Facilities and other overhead allocation | 160,900 | 95,582 | 13,286 | 17,225 | 18,704 | - | 305,697 | 64,985 | (370,682) | - | - |
| **Total** | $ 2,687,294 | $ 1,596,364 | $ 221,899 | $ 287,681 | $ 312,379 | $ - | $ 5,105,617 | $ 1,085,346 | $ 441,231 | $ 6,632,194 | $ 6,455,440 |

See notes to consolidated financial statements.

**Prison Fellowship International and Affiliates**

**Consolidated Statement of Cash Flows**
**Year Ended December 31, 2017**
**(With Comparative Totals for 2016)**

| | **2017** | 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | **$ 879,935** | $ 1,483,339 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | **67,247** | 111,102 |
| Net realized and unrealized loss (gain) on investments | **1,579** | (20,819) |
| Loss on disposal of equipment and furniture | **788** | 180 |
| Provision for doubtful accounts receivable | **(32,636)** | 32,636 |
| Provision for present value discount | **(17,532)** | - |
| Donated goods | **(1,783,139)** | (2,299,637) |
| Decrease (increase) in: | | |
| Contributions receivable | **802,611** | 697,180 |
| Accounts receivable | **96,889** | 12,409 |
| Inventory | **504,503** | 264,002 |
| Prepaid expenses | **(45,816)** | 59,416 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | **71,789** | (253,905) |
| **Net cash provided by operating activities** | **546,218** | 85,903 |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from sale of investment | **1,046** | 1,088,596 |
| Purchase of investments | **(451,126)** | (74,413) |
| Purchase of equipment and furniture | **(16,962)** | (11,272) |
| **Net cash (used in) provided by investing activities** | **(467,042)** | 1,002,911 |
| | | |
| **Net increase in cash and cash equivalents** | **79,176** | 1,088,814 |
| | | |
| Cash and cash equivalents: | | |
| Beginning | **2,093,115** | 1,004,301 |
| | | |
| Ending | **$ 2,172,291** | $ 2,093,115 |

See notes to consolidated financial statements.

## Note 1. Nature of Activities 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 120 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.

A summary of the Organization’s significant accounting policies follows:

**Basis of accounting:** The consolidated financial statements are prepared on the accrual basis of accounting whereby unconditional support is recognized when received, revenue is recognized when earned, and expenses are recognized when incurred.

**Principles of consolidation:** The accompanying consolidated financial statements include the accounts of PFI, Prison Fellowship International at Singapore LTD (PFI Singapore), Prison Fellowship International gGmbH (PFI Germany) and Prison Fellowship International Canada (PFI Canada). PFI controls and has an economic interest in PFI Singapore, PFI Germany and PFI Canada. All significant intercompany transactions and accounts have been eliminated in consolidation. For the purposes of this report, the four entities are referred to collectively as “he Organization.”

**Basis of presentation:** The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Non-Profit Entities Topic of the FASB ASC, Presentation of Financial Statements, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions with usage limited by donor-imposed stipulations that either expire by the passage of time or which are fulfilled and removed by actions of the Organization pursuant to those stipulations. Net assets may be temporarily restricted for various purposes; such as use in future periods or use for specified purposes.

Permanently restricted net assets result from contributions with usage limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization’s actions.

**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 U.S. federally insured limits. Management does not believe that this results in any significant credit risk. As of December 31, 2017, $368,164 of the total cash and cash equivalents balance was held in foreign bank accounts.

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

**Translation of foreign currencies:** The Organization maintains international offices located in Singapore (PFI Singapore), Germany (PFI Germany) and Canada (PFI Canada). The international offices maintain bank accounts, conduct business and record transactions in their local currencies. Assets and liabilities held by international offices are converted to U.S. dollar values at prevailing rates of exchange. Gains or losses from exchange transactions resulting in foreign currency are recognized in operations.

**Contributions receivable:** The Organization records contributions receivable when an unconditional promise to give is received. 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. The amount of the allowance, if any, is based on prior years' experience and management's current estimates of potentially uncollectible contributions. 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 re-measured using the current exchange rate at the reporting date. Fluctuations in contributions receivable denominated in foreign currencies are recorded as gains and losses and included in foreign currency transactions and re-measurements on the consolidated statement of activities. Changes in exchange rates after the statement of financial position date could have an effect on the balance of contributions receivable. Management has deemed that it is impracticable to determine and disclose the effects.

**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. As of December 31, 2017, there was not an allowance for doubtful accounts.

**Inventory:** Inventory is recorded at the lower of: 1) cost (determined using the weighted average method) or fair value at date of donation, or 2) net realizable value. At December 31, 2017, inventory consisted of Bibles and other program materials. Inventory includes donated Bibles that are to be distributed to recipients during the normal course of activities. PFI received $1,783,139 of donated bibles during the year ended December 31, 2017. Management determines the allowance for obsolete inventory by identifying non-marketable items and by using historical experience applied to recent disbursed items. Items are written off when deemed unmarketable. There was no provision for obsolete inventory at December 31, 2017.

**Investments:** Investments with readily determinable fair values are reflected at fair market value based on closing values at on the last trading day of the fiscal year. To adjust the carrying value of these investments, the change in fair value is reflected in investment income in the accompanying consolidated statement of activities.

**Credit risk**: The Organization invests in bond funds and equity securities. Such investments are exposed to various risks such as market, interest rate and credit. Due to the level of risk associated with the investments, and the level of uncertainty related to change in value of investments, it is possible that changes in risks in the near term would affect investment balances and amounts reported in the consolidated financial statements.

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**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. 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.

**Valuation of long-lived assets**: The Organization accounts for the subsequent measurement of certain long-lived assets in accordance with subsections of the FASB ASC Topic, Property, Plant and Equipment that addresses Impairment or Disposal of Long-Lived Assets. The accounting standard requires that property, plant and equipment and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell

**Charter membership fees:** Each affiliate member organization is to pay an annual contribution to PFI, based on a three tiered system. The affiliates tier within the system is based on its size and annual revenues. Tier one affiliates contributed 5% of their annual revenue. Tier two and three affiliates contribute a flat rate of $1,000 and $100, respectively. Charter membership fees are recognized when received or unconditionally promised.

**Ministry agreement revenue:** The Organization receives conditional contributions which are recorded as support and revenues when received and the conditions are met. See Note 6 which further discusses the agreement to which these contributions relate.

**Contributions:** The Organization records unconditional 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.

**Donated goods and facilities:** The Organization rents office space at a below market rate (see Note 6). The difference between the estimated rental market rate for comparable office space and the amount actually charged is recorded as donated facilities in the consolidated statement of activities. PFI also receives contributed supplies, equipment and software, and Bibles from various organizations, which can be temporarily restricted for a specific geographic region, program or time. Donated goods are recorded at fair value when received or promised.

**Ticket sales:** The Organization produces a series of events by various artists to solicit sponsors to support the Children of Prisoners Program. Revenue is recognized as non-refundable event tickets are sold.

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

**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 Sycamore Tree New Leaf program.
- Supporting affiliated 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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**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. PFI Germany is a registered charity in Germany. PFI Canada is a registered charity in Canada. The Organization has no unrelated business income. 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, 2017, 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 2014 through the current year remain open for examination by federal and state taxing authorities.

**Use of accounting estimates:** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

**Recent accounting pronouncements:** In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

**Prior year information:** The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

**Reclassifications:** Certain summarized 2016 amounts have been reclassified to conform to the 2017 presentation. These reclassifications had no effect on previously reported change in net assets or net assets.

**Subsequent events:** Management has evaluated subsequent events for disclosure in these consolidated financial statements through August 22, 2018, which is the date the consolidated financial statements were available to be issued.

## Note 2. Contributions Receivable

Contributions receivable are summarized as follows at December 31:

| | |
|---|---|
| Less than one year | $ 1,159,065 |
| One to five years, net of present value discount | 1,020,840 |
| | $ 2,179,905 |

Contributions receivable are discounted to their present value using rates between 1.25% and 4.27%. As of December 31, 2017, the present value discount is $62,069. Receivables from foreign donors are recorded in U.S. dollars, which reflects foreign exchange currency fluctuations at December 31, 2017. Contribution receivable from one donor represents 53% of the total balance at December 31, 2017.

## Note 3. Equipment and Furniture

Equipment and furniture consists of the following at December 31:

| | | |
|---|---|---|
| Equipment and furniture | $ | 28,905 |
| Computer hardware | | 42,522 |
| Computer software | | 373,580 |
| Total equipment and furniture | | 445,007 |
| Less accumulated depreciation | | (374,028) |
| | $ | 70,979 |

Depreciation and amortization expense for the year ended December 31, 2017, was $67,247.

## Note 4. Temporarily Restricted Net Assets

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

| | | |
|---|---|---|
| Children of Prisoners and Sponsor Acquisition | $ | 2,350,151 |
| Time Restricted | | 235,488 |
| Capacity Building | | 254,079 |
| The Prisoner’s Journey | | 205,597 |
| Ministry Support | | 75,060 |
| | $ | 3,120,375 |

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

| | | |
|---|---|---|
| Children of Prisoners and Sponsor Acquisition | $ | 1,426,040 |
| The Prisoner’s Journey | | 1,638,728 |
| Capacity building | | 520,244 |
| Ministry support | | 36,675 |
| Sycamore Tree Project | | 124,166 |
| Time restricted | | 59,743 |
| | $ | 3,805,596 |

## Note 5. 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 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, 2017:

| | |
|---|---|
| Donor-restricted endowment funds | $ 90,000 |

There were no changes in donor-restricted endowment funds for the year ended December 31, 2017. The donor-restricted endowment funds are classified as permanently restricted. 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, 2017.

**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 cash equivalents, mutual funds and exchange traded funds. 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.

## Note 5. Endowment Funds (Continued)

**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).

**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.

## Note 6. Affiliated Entity

Prison Fellowship USA (PF USA) is the United States of America chartered affiliate of PFI. 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, 2017, the remaining conditional promise to give for the initial seven year term ending on May 31, 2020, totaled $1,750,000, which is not reflected in the accompanying consolidated statement of financial position. Revenue from the agreement is recognized on the consolidated statement of activities 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, 2017, was $30,510. The difference between the amount paid and the estimated market rate rent for comparable office space was recorded as both a contribution of $78,655 from PF USA and as rent expense in 2017.

## Note 7. 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, 2017, the Organization had no indebtedness under the line of credit.

## Note 8. 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 2017 was $55,473.

## Note 9. Investments

Investments at December 31, 2017, consists of the following:

| | | |
|---|---|---|
| Bond funds | $ | 448,437 |
| Equity | | 1,074 |
| | $ | 449,511 |

Investment income for the year ended December 31, 2017, consists of the following:

| | | |
|---|---|---|
| Unrealized and realized loss on investments | $ | (1,579) |
| Interest and dividends | | 4,019 |
| | $ | 2,440 |

## Note 10. Fair Value Measurements

FASB ASC 820, Fair Value Measurement establishes a single authoritative definition of fair value, sets out a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. The standard applies to all assets and liabilities that are being measured and reported on a fair value basis. This standard enables the reader of the consolidated financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The standard requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

**Level 1:** Quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

**Level 2:** Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies.

**Level 3:** Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to the standard. There were no Level 2 or Level 3 inputs for any assets held by the Organization at December 31, 2017.

## Note 10. Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value as of December 31, 2017, on a recurring basis by level within the hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Bond funds: | | | | |
| Short-term bond | $ 79,577 | $ - | $ - | $ 79,577 |
| Intermediate-term bonds | 339,558 | - | - | 339,558 |
| Global bond | 29,302 | - | - | 29,302 |
| | 448,437 | - | - | 448,437 |
| Equity: | | | | |
| Financials | 1,074 | - | - | 1,074 |
| Total assets | $ 449,511 | $ - | $ - | $ 449,511 |