

**PRISON FELLOWSHIP MINISTRIES AND
AFFILIATE**

**AUDITED CONSOLIDATED FINANCIAL
STATEMENTS**

YEARS ENDED JUNE 30, 2017 AND 2016

Prison Fellowship Ministries and Affiliate

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Independent Auditor's Report

Board of Directors
Prison Fellowship Ministries and Affiliate
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We have audited the accompanying consolidated financial statements of **Prison Fellowship Ministries and Affiliate** (a nonprofit organization), which comprise the Consolidated Statements of Financial Position as of June 30, 2017 and 2016, and the related Consolidated Statements of Activities and Changes in Net Assets, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

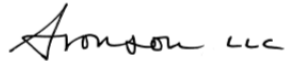
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,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

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

Independent Auditor's Report (continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Prison Fellowship Ministries and Affiliate** as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Rockville, Maryland
October 5, 2017

Prison Fellowship Ministries and Affiliate

Consolidated Statements of Financial Position (\$ in Thousands)

<i>June 30</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 4,470	\$ 4,208
Investments		
Cash and cash equivalents held for long-term use	1,768	537
Investments	18,425	19,081
Assets held in charitable remainder trusts	193	185
Total investments	20,386	19,803
Contributions receivable, net	1,519	740
Program advances and other receivables	1,068	872
Prepaid expenses and other assets	324	283
Inventory of publications and supplies	500	298
Beneficial interest in trusts	730	676
Cash surrender value of life insurance policies	91	86
Property, buildings and equipment, net	16,356	16,729
Total assets	\$ 45,444	\$ 43,695
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,945	\$ 2,490
Accrued salaries and benefits	1,052	857
Deferred revenue	81	80
Donor advances	-	35
Annuities payable	4,166	4,159
Liability under trust agreements	68	69
Total liabilities	7,312	7,690
Net assets		
Unrestricted	26,170	25,807
Temporarily restricted	8,484	6,742
Permanently restricted	3,478	3,456
Total net assets	38,132	36,005
Total liabilities and net assets	\$ 45,444	\$ 43,695

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

Prison Fellowship Ministries and Affiliate

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

<i>For the Year Ended June 30, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Contributions	\$ 29,538	\$ 7,736	\$ -	\$ 37,274
Investment return	650	140	-	790
Other revenue	1,300	-	-	1,300
In-kind contributions	76	-	-	76
Loss on sale and disposal of property	(29)	-	-	(29)
Net assets released from restrictions	6,282	(6,282)	-	-
Total support and revenue	37,817	1,594	-	39,411
Expenses				
Program services:				
Program ministry	19,838	-	-	19,838
Public education	3,037	-	-	3,037
International prison ministry	1,844	-	-	1,844
Total program services	24,719	-	-	24,719
Supporting services:				
Management and general	4,092	-	-	4,092
Fundraising	8,943	-	-	8,943
Total supporting services	13,035	-	-	13,035
Total expenses	37,754	-	-	37,754
Change in net assets from operations	63	1,594	-	1,657
Unrealized net market gain on investments	789	107	-	896
Change in value of split-interest agreements	(489)	41	22	(426)
Change in net assets	363	1,742	22	2,127
Net assets, beginning of year	25,807	6,742	3,456	36,005
Net assets, end of year	\$ 26,170	\$ 8,484	\$ 3,478	\$ 38,132

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

Prison Fellowship Ministries and Affiliate

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

<i>For the Year Ended June 30, 2016</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Contributions	\$ 32,731	\$ 7,606	\$ -	\$ 40,337
Investment return	16	(6)	-	10
Loss on sale and disposal of property	(3)	-	-	(3)
Other revenue	1,349	-	-	1,349
In-kind contributions	139	-	-	139
Loss on impairment	(310)	-	-	(310)
Loss on restricted promises to give	-	(100)	-	(100)
Net assets released from restrictions	5,741	(5,741)	-	-
Total support and revenue	39,663	1,759	-	41,422
Expenses				
Program services:				
Program ministry	19,936	-	-	19,936
Public education	3,204	-	-	3,204
International prison ministry	2,735	-	-	2,735
Total program services	25,875	-	-	25,875
Supporting services:				
Management and general	4,247	-	-	4,247
Fundraising	8,824	-	-	8,824
Total supporting services	13,071	-	-	13,071
Total expenses	38,946	-	-	38,946
Change in net assets from operations	717	1,759	-	2,476
Unrealized net market gain on investments	100	39	-	139
Change in value of split-interest agreements	(389)	(23)	(18)	(430)
Change in net assets	428	1,775	(18)	2,185
Net assets, beginning of year	25,379	4,967	3,474	33,820
Net assets, end of year	\$ 25,807	\$ 6,742	\$ 3,456	\$ 36,005

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

Prison Fellowship Ministries and Affiliate

Consolidated Statement of Functional Expenses (\$ in Thousands)

<i>For the Year Ended June 30, 2017</i>	Program Services				Supporting Services			
	Program Ministry	Public Education	International Prison Ministry	Total	Management and General	Fundraising	Total	Total
Salaries and related expenses	\$ 11,908	\$ 1,437	\$ 21	\$ 13,366	\$ 2,420	\$ 1,666	\$ 4,086	\$ 17,452
Other expenses								
Consulting	730	113	2	845	105	57	162	1,007
Donations	1,128	-	1,812	2,940	-	-	-	2,940
Materials and supplies	1,498	41	-	1,539	65	39	104	1,643
Occupancy	308	16	-	324	145	23	168	492
Other	552	126	6	684	313	159	472	1,156
Postage	536	262	-	798	109	1,638	1,747	2,545
Printing	186	330	-	516	139	2,189	2,328	2,844
Professional fees	724	433	2	1,159	516	2,939	3,455	4,614
Repair and maintenance	137	11	1	149	93	16	109	258
Telephone	305	32	-	337	26	28	54	391
Travel	1,285	163	-	1,448	70	143	213	1,661
Total other expenses	19,297	2,964	1,844	24,105	4,001	8,897	12,898	37,003
Depreciation and amortization	541	73	-	614	91	46	137	751
Total expenses	\$ 19,838	\$ 3,037	\$ 1,844	\$ 24,719	\$ 4,092	\$ 8,943	\$ 13,035	\$ 37,754

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

Prison Fellowship Ministries and Affiliate

Consolidated Statement of Functional Expenses (\$ in Thousands)

<i>For the Year Ended June 30, 2016</i>	Program Services				Supporting Services			
	Program Ministry	Public Education	International Prison Ministry	Total	Management and General	Fundraising	Total	Total
Salaries and related expenses	\$ 11,630	\$ 1,506	\$ 18	\$ 13,154	\$ 2,311	\$ 1,238	\$ 3,549	\$ 16,703
Other expenses								
Consulting	1,092	185	-	1,277	153	107	260	1,537
Donations	1,551	3	2,715	4,269	-	-	-	4,269
Materials and supplies	1,509	51	-	1,560	96	53	149	1,709
Occupancy	300	45	-	345	138	38	176	521
Other	521	36	-	557	389	104	493	1,050
Postage	413	273	-	686	128	1,699	1,827	2,513
Printing	129	348	-	477	178	2,348	2,526	3,003
Professional fees	619	567	1	1,187	590	3,069	3,659	4,846
Repair and maintenance	125	30	1	156	65	22	87	243
Telephone	317	28	-	345	35	21	56	401
Travel	1,279	94	-	1,373	73	92	165	1,538
Total other expenses	19,485	3,166	2,735	25,386	4,156	8,791	12,947	38,333
Depreciation and amortization	451	38	-	489	91	33	124	613
Total expenses	\$ 19,936	\$ 3,204	\$ 2,735	\$ 25,875	\$ 4,247	\$ 8,824	\$ 13,071	\$ 38,946

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

Prison Fellowship Ministries and Affiliate

Consolidated Statements of Cash Flows (\$ in Thousands)

<i>For the Years Ended June 30,</i>	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 2,127	\$ 2,185
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	751	613
Change in contributions receivable discount and allowance	49	(2)
Contributed securities	(41)	-
Realized and unrealized (gains) loss on investments	(1,349)	212
Actuarial loss on annuity obligations	495	387
Loss on sale and disposal of property	29	3
Loss on impairment	-	310
Change in cash surrender value of life insurance policies	(5)	21
(Increase) decrease in:		
Contributions receivable	(828)	(448)
Program advances and other receivables	(192)	219
Prepaid expenses and other assets	(41)	68
Inventory of publications and supplies	(202)	134
Beneficial interest in trusts	(54)	34
Increase (decrease) in:		
Accounts payable and accrued expenses	326	(19)
Accrued salaries and benefits	195	(42)
Donor advances	(35)	35
Deferred revenue	1	8
Liability under trust agreements	(1)	(7)
Net cash provided by operating activities	1,225	3,711
Cash flows from investing activities		
Acquisitions of property and equipment	(407)	(471)
Proceeds from sale of investments	13,921	11,747
Purchase of investments	(12,758)	(14,586)
Net cash provided (used) by investing activities	756	(3,310)
Cash flows from financing activities		
Proceeds from annuity agreements	135	142
Payment of annuity obligations	(623)	(624)
Net cash used in financing activities	(488)	(482)

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

Prison Fellowship Ministries and Affiliate

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

<i>For the Years Ended June 30,</i>	2017	2016
Net change in cash and cash equivalents	1,493	(81)
Cash, cash equivalents, and restricted cash, beginning of year	4,745	4,826
Cash, cash equivalents, and restricted cash, end of year	\$ 6,238	\$ 4,745
Noncash investing transactions		
Unsettled (sales) purchases of investment securities	\$ (4)	\$ 871

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

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

1. Organization and significant accounting policies

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

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

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

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

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

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

Funding for PFM is obtained primarily from private contributors.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

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

Financial statement presentation: PFM classifies net assets into three categories: unrestricted, temporarily restricted and permanently restricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Temporarily restricted net assets are contributions with temporary donor-imposed time and/or program restrictions. These temporary restrictions require that resources be used for specific purposes and/or in a later period or after a specified date. Temporarily restricted net assets become unrestricted when the time restrictions expire or the funds are used for their restricted purpose and are reported in the Consolidated Statements of Activities and Changes in Net Assets as net assets released from restrictions. When a restriction on a contribution is met in the same period in which the contribution was received, the contribution is reported in the Consolidated Statement of Activities and Changes in Net Assets as temporarily restricted revenue and as net assets released from restrictions.

Permanently restricted net assets represent amounts to be held in perpetuity.

As of June 30, 2017 and 2016, unrestricted net assets included \$70 of donor advised funds. These funds are unrestricted by the donor, but have been earmarked by the PFMF board of directors for the purpose of issuing grants.

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

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

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

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

	2017	2016
Cash and cash equivalents	\$ 4,470	\$ 4,208
Cash and cash equivalents held for long-term use	1,768	537
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows	\$ 6,238	\$ 4,745

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

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

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

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

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

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

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

PFM considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument. There have been no changes in the fair value methodologies used at June 30, 2017 and 2016.

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

Contributions receivable: The face amount of contributions receivable is reduced by an allowance for doubtful accounts. The allowance for doubtful accounts reflects the best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known troubled accounts. All contributions or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. As of June 30, 2017 and 2016, the allowance for doubtful accounts was \$30 and \$0, respectively.

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

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

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

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

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

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

During the year ended June 30, 2017, the Organization recorded no impairment adjustments on long-lived assets. During the year ended June 30, 2016, the Organization evaluated the balance of construction in progress and determined that internal use software costs previously incurred and capitalized were in excess of the estimated fair value due to additional costs being required to place the asset in service. An impairment loss of \$310 was recorded during the year ended June 30, 2016.

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

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

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Contributions: PFM records pledges as contributions at net present value when there is documentation or other evidence for the amount, timing and nature of the contribution. Donated securities and in-kind contributions are recorded as contributions at their estimated fair market value on the date that control is relinquished by the donor. Other contributions, if not previously pledged, are recognized as support when cash is received. PFM reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

PFM records any contribution to another organization as an expense in the year an unconditional promise to give is made.

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

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

Allocation of costs: PFM classifies costs between the various program services and support services in order to clearly, consistently and accurately reflect its activities. Management reviews the allocation methods each year to ensure their propriety. Various factors – including the implementation of new programs or support systems, the general economic environment or the scheduling of capital fundraising projects – will have an effect on the overall allocation of costs between program services and supporting services. While it is the Ministry's intention to minimize the funds expended toward supporting services so that program services may be maximized, year-by-year fluctuations in the allocation should be expected.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Costs are allocated as follows:

Program services

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

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

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

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

Supporting services

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

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

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

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

Advertising: Costs incurred for advertising are expensed as incurred. For the years ended June 30, 2017 and 2016, advertising costs approximated \$99 and \$39, respectively.

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Uncertainty in income taxes: PFM evaluates uncertainty in income tax positions based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement. As of June 30, 2017 and 2016, 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 tax authorities.

Reclassification: Certain items previously reported in the 2016 consolidated financial statements have been reclassified to conform to the current year presentation.

Subsequent events: Management has evaluated subsequent events for disclosure in these consolidated financial statements through October 5, 2017 which was the date the consolidated financial statements were available to be issued.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

New accounting standards adopted during 2017: In November 2016 the Financial Accounting Standards Board issued Accounting Standards Update 2016-18 (“ASU 2016-18”) Statement of Cash Flows (Topic 230): *Restricted Cash*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2018, and is required to be applied retrospectively for each year presented. Early application is permitted, but not required.

PFM has elected to early adopt ASU 2016-18 retrospectively for the years ended June 30, 2017 and 2016. The adoption resulted in a net increase of \$1,947 in cash and cash equivalents provided by investing activities and a net decrease \$603 in cash and cash equivalents used in investing activities for the years ended June 30, 2017 and 2016, respectively.

2. Investments

Investments (including assets held in charitable remainder trusts) as of June 30, 2017 and 2016, are as follows:

	2017	2016
Cash and equivalents held for long-term use	\$ 1,768	\$ 537
Money market funds	1	2
Equities	12,157	10,984
Mutual funds:		
Equity funds	397	361
Fixed income funds	255	240
Fixed income securities:		
Federal government bonds and notes	2,267	3,769
Mortgage backed securities	245	662
Corporate bonds	3,026	2,897
International bonds	268	349
Alternative investments:		
Land trusts	2	2
Total investments	\$ 20,386	\$ 19,803

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Investment income from all investment sources for the years ended June 30 is as follows:

	2017	2016
Investment income:		
Interest and dividends	\$ 337	\$ 361
Net realized and unrealized gain (loss)	1,349	(212)
Total investment income	\$ 1,686	\$ 149

3. Fair value

Certain assets were recorded at fair value on a recurring basis as of June 30, 2017 based on the following level of hierarchy:

June 30, 2017	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Beneficial interest in trusts	\$ 730	\$ -	\$ -	\$ 730
Investments:				
Money market funds	\$ 1	\$ 1	\$ -	\$ -
Equities	12,157	12,157	-	-
Mutual funds:				
Equity funds	397	397	-	-
Fixed income funds	255	255	-	-
Fixed income securities:				
Federal government bonds and notes	2,267	-	2,267	-
Mortgage backed securities	245	-	245	-
Corporate bonds	3,026	-	3,026	-
International bonds	268	-	268	-
Land trusts	2	-	-	2
Total investments	\$ 18,618	\$ 12,810	\$ 5,806	\$ 2

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3) during the period ended June 30, 2017:

	Land trusts	Beneficial interest in trusts
Beginning balance	\$ 2	\$ 676
Change in value	-	54
Actuarial change	-	-
Sales	-	-
Additions	-	-
Payments	-	-
Ending balance	\$ 2	\$ 730

Certain investments and liabilities were recorded at fair value on a recurring basis as of June 30, 2016 based on the following level of hierarchy:

June 30, 2016	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Beneficial interest in trusts	\$ 676	\$ -	\$ -	\$ 676
Investments:				
Money market funds	\$ 2	\$ 2	\$ -	\$ -
Equities	10,984	10,984	-	-
Mutual funds:				
Equity funds	361	361	-	-
Fixed income funds	240	240	-	-
Fixed income securities:				
Federal government bonds and notes	3,769	-	3,769	-
Mortgage backed securities	662	-	662	-
Corporate bonds	2,897	-	2,897	-
International bonds	349	-	349	-
Land trusts	2	-	-	2
Total	\$ 19,266	\$ 11,587	\$ 7,677	\$ 2

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3) during the period ended June 30, 2016:

	Land trusts	REIT	Beneficial interest in trusts
Beginning balance	\$ 2	\$ 3	\$ 710
Change in value	-	-	(34)
Actuarial change	-	-	-
Sales	-	(3)	-
Additions	-	-	-
Payments	-	-	-
Ending balance	\$ 2	\$ -	\$ 676

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

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

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

The following table summarizes the valuation techniques and significant unobservable inputs used for PFM's significant assets and liabilities categorized within Level 3 of the fair value hierarchy at June 30, 2017 and 2016.

	Fair Value at 6/30/2017	Fair Value at 6/30/2016	Valuation techniques	Unobservable input	Range of significant input values
Beneficial interest in remainder trusts	\$ 490	\$ 458	Income approach Present value of future cash flows	Discount rate Life expectancy	6% Fiscal Year 2017 – 4.6 years Fiscal Year 2016 – 4.9 years
Beneficial interest in perpetual trusts	\$ 240	\$ 218	Income approach Present value of future cash flows	Fair value of assets contributed to the trust	N/A

4. Contributions receivable

The following comprised contributions receivable as of June 30:

	2017	2016
Due in 1 year or less	\$ 1,068	\$ 740
Due in 1 to 5 years	500	-
Total gross contributions receivable	1,568	740
Less:		
Present value discount	(19)	-
Allowance for doubtful account	(30)	-
Contributions receivable, net	\$ 1,519	\$ 740

Contributions receivable are discounted to their present value using a rate of 1.83%.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

As of June 30, 2017, four donors had contribution receivable balances outstanding which represented 78% of total gross contributions receivable.

As of June 30, 2016, three donors had contribution receivable balances outstanding which represented 85% of total gross contributions receivable.

5. Conditional promises to give

For the years ended June 30, 2017 and 2016, PFM received conditional promises to give, totaling \$0 and \$35, respectively, designed to provide funds through matching contributions.

6. Property, buildings and equipment

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

	2017	2016
Land	\$ 3,306	\$ 3,306
Building and improvements	18,974	19,080
Furniture and equipment	2,525	2,588
Vehicles	44	44
Computer hardware	663	809
Computer software	5,480	5,449
Total	30,992	31,276
Less: Accumulated depreciation and amortization	(14,776)	(15,124)
Total	16,216	16,152
Construction in progress	140	577
Property, buildings and equipment, net	\$ 16,356	\$ 16,729

Depreciation and amortization expense totaled \$751 and \$613, for the years ended June 30, 2017 and 2016, respectively.

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

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

7. Split interest agreements

Charitable gift annuities: The Organization has established a Planned Giving Fund to account for gift annuities and charitable trusts. Under the gift annuities program, in return for a contribution, The Organization agrees to pay the donor an annuity for the donor's lifetime. The liability for future payments to donors at June 30, 2017 and 2016, based on an independent actuarial valuation, is \$4,166 and \$4,159, respectively.

The 2017 liability is calculated using mortality rates from the 2012 Individual Annuity Reserving Table ("IAR"). The 2016 liability was calculated using mortality rates from the 2000 Individual Annuity Mortality Table ("IAMT"). A discount rate of 5% to 6.5% is used for annuities issued prior to July 2016, and 4.25% for those issued on or after July 1, 2016.

The Organization sets its interest rate commitments under its gift annuities program based on those set by the American Council of Gift Annuities ("ACGA") at the time of issuance. The ACGA rates are based on specific assumptions regarding, among other things, net investment returns and expected life span so that, upon the annuitant's death, half of the original contribution remains available for the Organization's general operations. Because of the nature of gift annuities, it is possible that the total payments to an annuitant over his/her lifespan can exceed the net investment income and expected residual value of the segregated assets, if lower than expected long-term investment returns and/or higher than expected life spans are experienced. Management believes there are sufficient assets to meet the expected future obligations without using assets intended for daily operations. Total assets separately maintained as cash, cash equivalents and investments relating to charitable gift annuities totaled \$5,112 and \$5,539 as of June 30, 2017 and 2016, respectively. Asset balances at June 30, 2017 and 2016 exceeded the reserve requirements of the relevant regulatory bodies in all states that require a reserve fund and in which the Organization issues gift annuities.

Charitable trusts: As of June 30, 2017 and 2016, PFM maintained assets totaling \$193 and \$185, respectively, in conjunction with charitable remainder annuity trusts and charitable remainder unitrusts. Under these agreements, PFM is designated as the trustee and is required to make payments equal to a percentage of the net fair market value of the trust as of the valuation date over either the donor's estimated life or a certain number of years, as specified in the trust agreement. Upon termination of the trust, PFM will receive the remaining assets. The trust assets are initially recorded at fair market value as of the date of donation. The liability for future payments to donors at June 30, 2017 and 2016 was \$68 and \$69, respectively.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Beneficial interest in trusts: PFM was named a beneficiary in two charitable remainder trusts held by third parties. The value of PFM's interest in the trusts totaled \$490 and \$458, as of June 30, 2017 and 2016, respectively, and is included in temporarily restricted net assets. The changes in the fair value of the trust assets are recognized as temporarily restricted net assets. Distributions received from the trusts are recognized as unrestricted net assets unless purpose restricted by the donor.

PFM was named a beneficiary in four perpetual trusts held by third parties. The value of PFM's interest in the trusts totaled of \$240 and \$218, as of June 30, 2017 and 2016, respectively, and is included in permanently restricted net assets and the endowment. The changes in the fair value of the trust assets are recognized as permanently restricted net assets. Distributions received from the trusts are recognized as unrestricted net assets unless purpose restricted by the donor.

8. Line of credit PFM has a line of credit that was renewed on April 3, 2017, totaling \$5,850, and is secured by a covenant not to encumber or convey PFMF's Lansdowne, Virginia real property. This agreement will expire on March 25, 2018. At June 30, 2017 and 2016, there was no outstanding balance on the line of credit. The line of credit bears interest at the one-year LIBOR rate, plus 1.95%. The interest rate was 3.25% as of June 30, 2017 and 2016. Under the terms of the line of credit agreement, PFM must maintain a minimum tangible net worth of \$25,000. PFM is in compliance with all debt covenants as of June 30, 2017 and 2016.

9. Concentration of credit risk Financial instruments which potentially subject PFM to concentrations of credit risk consist primarily of cash, cash equivalents, investments and contributions receivable. PFM maintains substantially all of its cash, cash equivalents and investments in high credit-quality financial institutions. Cash held by financial institutions is insured by the Federal Deposit Insurance Corporation up to \$250. Investments held by financial institutions are insured by the Securities Investor Protection Corporation up to \$500, which includes up to \$250 protection for cash held in brokerage accounts. At June 30, 2017 and 2016, substantially all of PFM's cash, cash equivalents and investment balances were uninsured. For the composition of investment balances at June 30, 2017 and 2016, see Note 2.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

10. Retirement plan

PFM maintains a defined contribution plan that covers all qualifying employees, as defined within the plan agreement. The plan is based on mandatory employee contributions of 2% of annual salary with PFM's discretionary contributions equaling 3% of annual salary for the years ended June 30, 2017 and 2016. Employees are 100% vested in contributions they make to the defined contribution plan and investment income earned thereon. Contributions by PFM on their behalf and investment income earned are immediately vested.

Total PFM contributions were \$355 and \$364 for the years ended June 30, 2017 and 2016, respectively.

11. Obligations under operating leases

PFM has entered into various operating lease agreements, primarily for office space and office equipment. Operating lease expenses incurred under these operating leases were \$88 and \$74 in 2017 and 2016, respectively.

PFM's future minimum payments for the equipment under non-cancelable operating leases as of June 30, 2017, are as follows:

Year Ending June 30	Total
2017	\$ 34
2018	10
2019	5
Total	\$ 49

12. Sublease rental income

PFM has entered into sublease rental agreements with three organizations for office space, office equipment and for the use of a portion of the building that is not otherwise occupied by PFM. Sublease rental income recognized by PFM was \$1,269 and \$1,234 in 2017 and 2016, respectively, and is included in other revenue on the Consolidated Statements of Activities and Changes in Net Assets.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

PFM's future sublease receipts for the use of the facilities as of June 30, 2017, are as follows:

Year Ending June 30	Total
2018	\$ 1,210
2019	965
2020	103
2021	30
2022	30
Total	\$ 2,338

13. Allocation of joint costs

During 2017 and 2016, PFM incurred joint costs of \$6,556 and \$7,210, respectively, for informational materials, primarily related to direct mailings that included fundraising appeals. Pursuant to U.S. GAAP, these costs were allocated to the functional areas as follows:

	2017	2016
Program services	\$ 665	\$ 798
Supporting services:		
Fundraising	5,586	5,996
Management and general	305	416
Total	\$ 6,556	\$ 7,210

14. Related parties

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

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

The total amount of monetary support provided to PFI was \$1,812 and \$2,715 in 2017 and 2016, respectively. As of June 30, 2017 and 2016, PFM had a contribution payable due in less than one year to PFI of approximately \$0 and \$94, respectively, which is included in accounts payable and accrued expenses in the accompanying Consolidated Statements of Financial Position. As of June 30, 2017 and 2016, PFI owed PFM, \$2 and \$4, respectively, for operating and administrative costs included by PFM on behalf of PFI.

15. Risk and uncertainties

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

16. Temporarily restricted net assets

Temporarily restricted net assets at June 30, 2017 and 2016, are as follows:

	2017		2016
Program assistance	\$ 5,919	\$	4,769
Time restricted for periods after June 30	1,813		1,451
Cumulative unappropriated endowment income – time restricted	752		522
Total	\$ 8,484	\$	6,742

For the years ended June 30, 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time releasing time restrictions:

	2017		2016
Program assistance	\$ 6,030	\$	5,622
Time restrictions expired	245		119
Appropriated endowment income	7		-
Total	\$ 6,282	\$	5,741

17. Permanently restricted net assets

Permanently restricted net assets consist of donations made with the restriction that the principal be maintained in perpetuity. The income earned on this principal can be used in the unrestricted operations of PFM; it is held as temporarily restricted pending distribution by the Board of Directors. Permanently restricted net assets at June 30, 2017 and 2016, totaled \$3,478 and \$3,456, respectively.

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

18. Endowment funds

The Organization had donor-restricted endowment funds totaling \$3,478 and \$3,456 at June 30, 2017 and 2016. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of the Relevant Law

The PFM Board of Directors has interpreted the Commonwealth of Virginia Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, PFM 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 not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Endowment net assets composition by type of fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 3,478	\$ 3,478
Endowment income reserved by Board for endowment	-	752	-	752
Total funds	\$ -	\$ 752	\$ 3,478	\$ 4,230

Changes in endowment net assets for the fiscal year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 522	\$ 3,456	\$ 3,978
Investment return:				
Investment income	-	49	-	49
Net depreciation (realized and unrealized)	-	188	-	188
Total investment return	-	237	-	237
Appropriations of endowment assets for expenditure	-	(7)	-	(7)
Change in value of perpetual trusts	-	-	22	22
Endowment net assets, end of year	\$ -	\$ 752	\$ 3,478	\$ 4,230

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Endowment net assets composition by type of fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 3,456	\$ 3,456
Endowment income reserved by Board for endowment	-	522	-	522
Total funds	\$ -	\$ 522	\$ 3,456	\$ 3,978

Changes in endowment net assets for the fiscal year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 500	\$ 3,474	\$ 3,974
Investment return:				
Investment income	-	64	-	64
Net depreciation (realized and unrealized)	-	(42)	-	(42)
Total investment return	-	22	-	22
Change in value of perpetual trusts	-	-	(18)	(18)
Endowment net assets, end of year	\$ -	\$ 522	\$ 3,456	\$ 3,978

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Notes to Consolidated Financial Statements (\$ in Thousands)

Description of amounts classified as permanently restricted and temporarily restricted net assets (endowment only):

	2017	2016
Permanently restricted net assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	\$ 3,478	\$ 3,456
Temporarily restricted net assets		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA and without purpose restrictions	\$ 752	\$ 522

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the PFM to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2017 and 2016.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Prison Fellowship Ministries and Affiliate

Notes to Consolidated Financial Statements (\$ in Thousands)

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

19. Contingencies

The Organization maintains a self-insurance program for its employees' health care costs. Self-insurance costs are accrued based on claims reported as of the statement of financial position date as well as an estimated liability for claims incurred but not reported. The total accrued liability for self-insurance costs was \$247 and \$283 as of June 30, 2017 and 2016, respectively.