PRISON FELLOWSHIP MINISTRIES AND AFFILIATE

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

Prison Fellowship Ministries and Affiliate

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Independent Auditor's Report

Board of Directors
Prison Fellowship Ministries and Affiliate
Lansdowne, Virginia

We have audited the accompanying consolidated financial statements of **Prison Fellowship Ministries and Affiliate** (a nonprofit organization), which comprise the Consolidated Statements of Financial Position as of June 30, 2018 and 2017, 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, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Aronson LLC

Rockville, Maryland
November 9, 2018

Certified Public Accountants & Management Consultants

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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Prison Fellowship Ministries and Affiliate

Consolidated Statements of Financial Position
($ in Thousands)

June 30		**2018**		2017
Assets				
Cash and cash equivalents	**$**	**2,736**	$	4,470
Investments				
Cash and cash equivalents held for long-term use		**2,789**		1,768
Investments		**18,648**		18,425
Assets held in charitable remainder trusts		**193**		193
Total investments		**21,630**		20,386
Contributions receivable, net		**3,452**		1,519
Program advances and other receivables		**1,378**		1,068
Prepaid expenses and other assets		**304**		324
Inventory of publications and supplies		**496**		500
Beneficial interest in trusts		**958**		730
Cash surrender value of life insurance policies		**100**		91
Property, buildings and equipment, net		**15,900**		16,356
Total assets	**$**	**46,954**	$	45,444
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	**$**	**3,567**	$	1,945
Accrued salaries and benefits		**1,082**		1,052
Deferred revenue		**19**		81
Capital lease obligation		**79**		-
Annuities payable		**3,883**		4,166
Liability under trust agreements		**66**		68
Total liabilities		**8,696**		7,312
Net assets				
Unrestricted		**22,940**		26,170
Temporarily restricted		**11,827**		8,484
Permanently restricted		**3,491**		3,478
Total net assets		**38,258**		38,132
Total liabilities and net assets	**$**	**46,954**	$	45,444

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)

For the Year Ended June 30, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Contributions	$ 25,169	$ 13,296	$ -	$ 38,465
Investment return	2,803	353	-	3,156
Other revenue	1,346	-	-	1,346
In-kind contributions	82	-	-	82
Loss on sale and disposal of property	(24)	-	-	(24)
Net assets released from restrictions	10,126	(10,126)	-	-
Total support and revenue	39,502	3,523	-	43,025
Expenses				
Program services:				
Program ministry	23,045	-	-	23,045
Public education	3,249	-	-	3,249
International prison ministry	1,068	-	-	1,068
Total program services	27,362	-	-	27,362
Supporting services:				
Management and general	3,893	-	-	3,893
Fundraising	9,106	-	-	9,106
Total supporting services	12,999	-	-	12,999
Total expenses	40,361	-	-	40,361
Change in net assets from operations	(859)	3,523	-	2,664
Unrealized net market loss on investments	(2,133)	(204)	-	(2,337)
Change in value of split-interest agreements	(238)	24	13	(201)
Change in net assets	(3,230)	3,343	13	126
Net assets, beginning of year	26,170	8,484	3,478	38,132
Net assets, end of year	$ 22,940	$ 11,827	$ 3,491	$ 38,258

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)

For the Year Ended June 30, 2017	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 Functional Expenses
($ in Thousands)

For the Year Ended June 30, 2018	Program Services: Program Ministry	Program Services: Public Education	Program Services: International Prison Ministry	Program Services: Total	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total	Total
Salaries and related expenses	$ 13,888	$ 1,635	$ 17	$ 15,540	$ 2,460	$ 1,422	$ 3,882	**$ 19,422**
Other expenses								
Consulting	571	46	-	617	52	28	80	**697**
Donations	1,286	-	1,050	2,336	13	3	16	**2,352**
Materials and supplies	1,926	68	-	1,994	58	33	91	**2,085**
Occupancy	370	35	-	405	101	32	133	**538**
Other	781	87	-	868	246	111	357	**1,225**
Postage	576	271	-	847	54	1,515	1,569	**2,416**
Printing	158	266	-	424	53	1,865	1,918	**2,342**
Professional fees	1,021	532	1	1,554	527	3,883	4,410	**5,964**
Repair and maintenance	100	17	-	117	35	14	49	**166**
Telephone	312	35	-	347	29	23	52	**399**
Travel	1,463	211	-	1,674	79	129	208	**1,882**
Total other expenses	8,564	1,568	1,051	11,183	1,247	7,636	8,883	**20,066**
Depreciation and amortization	593	46	-	639	186	48	234	**873**
Total expenses	**$ 23,045**	**$ 3,249**	**$ 1,068**	**$ 27,362**	**$ 3,893**	**$ 9,106**	**$ 12,999**	**$ 40,361**

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

Consolidated Statement of Functional Expenses
($ in Thousands)

	Program Services				Supporting Services			
For the Year Ended June 30, 2017	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	7,389	1,527	1,823	10,739	1,581	7,231	8,812	19,551
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 Statements of Cash Flows
($ in Thousands)

For the Years Ended June 30,	**2018**	2017
Cash flows from operating activities		
Change in net assets	**$ 126**	$ 2,127
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	**873**	751
Change in contributions receivable discount and allowance	**20**	49
Contributed securities	**-**	(41)
Realized and unrealized gains on investments	**(423)**	(1,349)
Actuarial loss on annuity obligations	**246**	495
Loss on sale and disposal of property	**24**	29
Change in cash surrender value of life insurance policies	**(9)**	(5)
(Increase) decrease in:		
Contributions receivable	**(1,953)**	(828)
Program advances and other receivables	**(237)**	(192)
Prepaid expenses and other assets	**20**	(41)
Inventory of publications and supplies	**4**	(202)
Beneficial interest in trusts	**(228)**	(54)
Increase (decrease) in:		
Accounts payable and accrued expenses	**1,427**	326
Accrued salaries and benefits	**30**	195
Donor advances	**-**	(35)
Deferred revenue	**(62)**	1
Liability under trust agreements	**(2)**	(1)
Net cash (used) provided by operating activities	**(144)**	1,225
Cash flows from investing activities		
Acquisitions of property and equipment	**(348)**	(407)
Proceeds from sale of investments	**30,007**	13,921
Purchase of investments	**(29,685)**	(12,758)
Net cash (used) provided by investing activities	**(26)**	756
Cash flows from financing activities		
Proceeds from annuity agreements	**54**	135
Payment of annuity obligations	**(583)**	(623)
Payment of capital lease obligation	**(14)**	-
Net cash used in financing activities	**(543)**	(488)

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)

For the Years Ended June 30,		**2018**		2017
Net change in cash and cash equivalents		**(713)**		1,493
Cash, cash equivalents, and restricted cash, beginning of year		**6,238**		4,745
Cash, cash equivalents, and restricted cash, end of year	**$**	**5,525**	$	6,238
Noncash investing transactions				
Equipment obtained by capital lease	**$**	**93**	$	-
Net unsettled purchases (sales) of investment securities	**$**	**122**	$	(4)

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

1. Organization and significant accounting policies

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

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

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

- Prison Fellowship Ministries Foundation ("PFMF"), which manages and administers planned giving programs to support Prison Fellowship Ministries. 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 PFMF with 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.

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, 2018 and 2017, 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.

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:

		2018		2017
Cash and cash equivalents	**$**	**2,736**	$	4,470
Cash and cash equivalents held for long-term use		**2,789**		1,768
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows	**$**	**5,525**	$	6,238

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

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

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

Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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

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

PFM considers observable data to be 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, 2018 and 2017.

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, 2018 and 2017, the allowance for doubtful accounts was $0 and $30, 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 the lower of costs and net realizable value, based upon the first-in, first-out method.

Beneficial interest in trusts: PFM is named as the beneficiary in remainder and perpetual trusts held by third parties. The trusts are invested in cash equivalents, equity and fixed income funds, and other assets. Remainder trusts are measured at fair value as the present value of the future distributions expected to be received over the term of the agreement, discounted at rates from 1.3% to 6%, adjusted for the life expectancy of the lead beneficiary using IRS actuarial tables. Perpetual trusts are measured using the fair value of amounts contributed to the trusts, multiplied by PFM's share of the total assets.

Property, buildings and equipment: 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. Capital lease assets are amortized over the term of the lease.

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

During the years ended June 30, 2018 and 2017, the Organization recorded no impairment adjustments on long-lived assets.

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

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

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.

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 13).

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.

Costs of joint activities: PFM records the costs of joint activities that have elements of fundraising and one or more other functions (such as program or management and general) in conformity with U.S. generally accepted accounting principles (U.S. GAAP), which establishes accounting standards for recording costs associated with joint activities. U.S. GAAP requires that the criteria of purpose, audience and content be met in order to allocate any portion of the costs of joint activities to a functional area other than fundraising. See Note 12 for the dollar amounts of joint cost activities reported in the consolidated financial statements.

Advertising: Costs incurred for advertising are expensed as incurred. For the years ended June 30, 2018 and 2017, advertising costs approximated $313 and $99, 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, 2018 and 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 2015 through the current year remain open for examination by tax authorities.

Reclassification: Certain items previously reported in the 2017 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 November 9, 2018 which was the date the consolidated financial statements were available to be issued.

($ in Thousands)

New accounting standards adopted during fiscal year 2018: In July 2015, the FASB issued Accounting Standards Update 2015-11 ("ASU 2015-11") *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in ASU 2015-11 require an entity to measure inventory at the lower of cost and net realizable value. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016. A reporting entity should apply the amendments prospectively to all periods presented. Management has elected to adopt this ASU 2015-11 in the accompanying consolidated financial statements for the year ended June 30, 2018. There were no changes to the value of inventory reported for the year ended June 30, 2018, as a result of adopting ASU 2015-11.

2. Investments

Investments (including assets held in charitable remainder trusts) as of June 30, 2018 and 2017, are as follows:

	2018	2017
Cash and equivalents held for long-term use	$ 2,789	$ 1,768
Money market funds	2	1
Equities	6,439	12,157
Mutual funds:		
Equity funds	4,337	397
Fixed income funds	4,545	255
Fixed income securities:		
Federal government bonds and notes	1,118	2,267
Mortgage backed securities	839	245
Corporate bonds	1,529	3,026
International bonds	30	268
Alternative investments:		
Land trusts	2	2
Total investments	$ 21,630	$ 20,386

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

	2018	2017
Investment income:		
Interest and dividends	$ 396	$ 337
Net realized and unrealized gain	423	1,349
Total investment income	$ 819	$ 1,686

($ in Thousands)

3. Fair value

Certain assets were recorded at fair value on a recurring basis as of June 30, 2018 based on the following level of hierarchy:

		Fair Value Measurements		
June 30, 2018	Total	Level 1	Level 2	Level 3
Beneficial interest in trusts	**$ 958**	**$ -**	**$ -**	**$ 958**
Investments:				
Money market funds	**$ 2**	**$ 2**	**$ -**	**$ -**
Equities	**6,439**	**6,439**	**-**	**-**
Mutual funds:				
Equity funds	**4,337**	**4,337**	**-**	**-**
Fixed income funds	**4,545**	**4,545**	**-**	**-**
Fixed income securities:				
Federal government bonds and notes	**1,118**	**-**	**1,118**	**-**
Mortgage backed securities	**839**	**-**	**839**	**-**
Corporate bonds	**1,529**	**-**	**1,529**	**-**
International bonds	**30**	**-**	**30**	**-**
Land trusts	**2**	**-**	**-**	**2**
Total investments	**$ 18,841**	**$ 15,323**	**$ 3,516**	**$ 2**

The following is a reconciliation of the beginning and ending balances for assets measured at fair value using significant unobservable inputs (Level 3) during the year ended June 30, 2018:

	Land trusts	**Beneficial interest in trusts**
Beginning balance	**$ 2**	**$ 730**
Change in value	**-**	**33**
Actuarial change	**-**	**-**
Sales	**-**	**-**
Additions	**-**	**195**
Payments	**-**	**-**
Ending balance	**$ 2**	**$ 958**

($ in Thousands)

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

		Fair Value Measurements		
June 30, 2017	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

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

($ in Thousands)

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 rates from 1.3% to 6%, which reflects current market conditions, adjusted for the life expectancy of the lead beneficiary using IRS actuarial tables. Perpetual trusts are measured using the fair value of amounts contributed to the trusts, multiplied by PFM's share of the total assets.

The following table summarizes the valuation techniques and significant unobservable inputs used for PFM's significant assets and liabilities categorized within Level 3 of the fair value hierarchy at June 30, 2018 and 2017.

	Fair Value at 6/30/2018	**Fair Value at 6/30/2017**	**Valuation techniques**	**Unobservable input**	**Range of significant input values**
Beneficial interest in remainder trusts	**$ 705**	$ 490	Income approach Present value of future cash flows	Discount rate Life expectancy	1.3% - 6% Fiscal Year 2018 – 4.3 – 25.1 years Fiscal Year 2017 – 4.6 years
Beneficial interest in perpetual trusts	**$ 253**	$ 240	Income approach Present value of future cash flows	Fair value of assets contributed to the trust	N/A

($ in Thousands)

4. Contributions receivable

The following comprised contributions receivable as of June 30:

	2018	2017
Due in 1 year or less	**$ 2,162**	$ 1,068
Due in 1 to 5 years	**1,359**	500
Total gross contributions receivable	**3,521**	1,568
Less:		
Present value discount	**(69)**	(19)
Allowance for doubtful account	**-**	(30)
Contributions receivable, net	**$ 3,452**	$ 1,519

The following comprised conditional contributions receivable as of June 30:

	2018	2017
Match available for Northwest Academies	**$ 245**	$ -
Total conditional contributions receivable	**$ 245**	$ -

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

As of June 30, 2018, three donors had contribution receivable balances outstanding which represented 53% of total gross contributions receivable.

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

During 2018 the PFM received a promise of $524,000, due in $186,000 increments in years one and two of the promise, and $152,000 in year three of the promise. Payment of $93,000 of the year two promise is contingent upon raising matching funds of $93,000 by June 30, 2019. Payment of the $152,000 year three promise is contingent raising $304,000 of matching funds by June 30, 2020.

($ in Thousands)

5. Property, buildings and equipment

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

	2018	2017
Land	**$ 3,306**	$ 3,306
Building and improvements	**18,582**	18,584
Furniture, equipment and other	**2,815**	2,915
Vehicles	**44**	44
Computer hardware	**660**	663
Computer software	**1,215**	5,480
Leased equipment	**93**	-
Total	**26,715**	30,992
Less: Accumulated depreciation and amortization	**(10,914)**	(14,776)
Total	**15,801**	16,216
Construction in progress	**99**	140
Property, buildings and equipment, net	**$ 15,900**	$ 16,356

Depreciation and amortization expense totaled $873 and $751, for the years ended June 30, 2018 and 2017, respectively.

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

6. Split interest agreements

Charitable gift annuities: The Organization has established a Planned Giving Fund to account for gift annuities and charitable trusts. Under the gift annuities program, in return for a contribution, The Organization agrees to pay the donor an annuity for the donor's lifetime. The liability for future payments to donors at June 30, 2018 and 2017, based on an independent actuarial valuation, is $3,883 and $4,166, respectively.

The 2018 and 2017 liability is calculated using mortality rates from the 2012 Individual Annuity Reserving Table ("IAR"). A discount rate of 5% to 6.5% is used for annuities issued prior to July 2016, 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 $4,964 and $5,112 as of June 30, 2018 and 2017, respectively. Asset balances at June 30, 2018 and 2017 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, 2018 and 2017, PFM maintained assets totaling $193, 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, 2018 and 2017 was $66 and $68, respectively.

Beneficial interest in trusts: PFM was named a beneficiary in four charitable remainder trusts held by third parties. The value of PFM's interest in the trusts totaled $705 and $490, as of June 30, 2018 and 2017, 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 $253 and $240, as of June 30, 2018 and 2017, 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.

7. Line of credit

PFM had a line of credit, totaling $5,850, and was secured by a covenant not to encumber or convey PFMF's Lansdowne, Virginia real property. This agreement expired on March 25, 2018. At June 30, 2017, there was no outstanding balance on the line of credit. The line of credit had an interest rate at the one-year LIBOR rate, plus 1.95%.

In August 2018, PFM entered into an loan management account agreement, where PFM can borrow based on the value and type of investments deposit with their investment bank. Advances can be variable rate, fixed rate or term, and interest is determined based on the type and timing of the advance.

8. Concentration of credit risk

Financial instruments which potentially subject PFM to concentrations of credit risk consist primarily of cash, cash equivalents, investments and contributions receivable. PFM maintains substantially all of its cash, cash equivalents and investments in high credit-quality financial institutions. Cash held by financial institutions is insured by the Federal Deposit Insurance Corporation up to $250. Investments held by financial institutions are insured by the Securities Investor Protection Corporation up to $500, which includes up to $250 protection for cash held in brokerage accounts. At June 30, 2018 and 2017, substantially all of PFM's cash, cash equivalents and investment balances were uninsured. For the composition of investment balances at June 30, 2018 and 2017, see Note 2.

9. Retirement plan

PFM maintains a defined contribution plan that covers all qualifying employees, as defined within the plan agreement. The plan is based on mandatory employee contributions of 2% of annual salary with PFM's discretionary contributions equaling 3% of annual salary for the years ended June 30, 2018 and 2017. 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 $374 and $355 for the years ended June 30, 2018 and 2017, respectively.

10. Leases

Operating leases: PFM has entered into various operating lease agreements, as lessee, primarily for office space and office equipment. Operating lease expenses incurred under these operating leases were $124 and $88 in 2018 and 2017, respectively.

($ in Thousands)

PFM's future minimum payments for the equipment under non-cancelable operating leases as of June 30, 2018, are as follows:

Year Ending June 30	Total
2019	$ 10
2020	5
Total	$ 15

Capital lease: PFM entered into an agreement in September 2017 for the 5-year lease of copiers which is classified as a capital lease, with capitalized costs totaling $93. The interest rate related to the lease obligation is 6.4 percent, and the maturity is August 2023. Amortization expense for the years ending June 30, 2018 and 2017 totaled $14 and $0, respectively.

The following is a schedule showing the future minimum lease payments under the capital lease and the present value of the minimum lease payments as of June 30, 2018.

For the years ending December 31:	
2019	$ 22
2020	22
2021	22
2022	22
2023	3
Total minimum lease payments	91
Less, amount representing interest	(12)
Present value of minimum lease payments	$ 79

As of June 30, 2018, the present value of minimum lease payments due within one year is $17.

11. 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 $1,286 and $1,269 in 2018 and 2017, respectively, and is included in other revenue on the Consolidated Statements of Activities and Changes in Net Assets.

($ in Thousands)

PFM's future sublease receipts for the use of the facilities as of June 30, 2018, are as follows:

Year Ending June 30		Total
2019	$	965
2020		103
2021		30
2022		30
Total	$	1,128

12. Allocation of joint costs

During 2018 and 2017, PFM incurred joint costs of $6,835 and $6,556, 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:

		2018		2017
Program services	**$**	**651**	$	665
Supporting services:				
Fundraising		**6,010**		5,586
Management and general		**174**		305
Total	**$**	**6,835**	$	6,556

13. Related parties

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

The total amount of monetary support provided to PFI was $1,111 and $1,812 in 2018 and 2017, respectively. As of June 30, 2018 and 2017, PFI owed PFM, $1 and $2, respectively, for operating and administrative costs included by PFM on behalf of PFI.

($ in Thousands)

14. Risk and uncertainties

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

15. Temporarily restricted net assets

Temporarily restricted net assets at June 30, 2018 and 2017, are as follows:

	2018	2017
Program assistance	**$ 8,135**	$ 5,919
Time restricted for periods after June 30	**3,251**	1,813
Cumulative unappropriated endowment income – time restricted	**441**	752
Total	**$ 11,827**	$ 8,484

For the years ended June 30, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time releasing time restrictions:

	2018	2017
Program assistance	**$ 8,555**	$ 6,030
Time restrictions expired	**1,121**	245
Appropriated endowment income	**450**	7
Total	**$ 10,126**	$ 6,282

16. 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, 2018 and 2017, totaled $3,491 and $3,478, respectively.

17. Endowment funds

The Organization had donor-restricted endowment funds totaling $3,491 and $3,478 at June 30, 2018 and 2017. 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.

Endowment net assets composition by type of fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 3,491	$ 3,491
Endowment income reserved by Board for endowment	-	440	-	440
Total funds	$ -	$ 440	$ 3,491	$ 3,931

($ in Thousands)

Changes in endowment net assets for the fiscal year ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	**$ -**	**$ 752**	**$ 3,478**	**$ 4,230**
Investment return:				
Investment income	**-**	**70**	**-**	**70**
Net appreciation (realized and unrealized)	**-**	**68**	**-**	**68**
Total investment return	**-**	**138**	**-**	**138**
Appropriations of endowment assets for expenditure	**-**	**(450)**	**-**	**(450)**
Change in value of perpetual trusts	**-**	**-**	**13**	**13**
Endowment net assets, end of year	**$ -**	**$ 440**	**$ 3,491**	**$ 3,931**

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

($ in Thousands)

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

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

	2018	2017
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	**$ 3,491**	$ 3,478
Temporarily restricted net assets		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA and without purpose restrictions	**$ 440**	$ 752

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, 2018 and 2017.

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

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

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

18. 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 $310 and $247 as of June 30, 2018 and 2017, respectively.