PRISON FELLOWSHIP MINISTRIES AND AFFILIATE

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Prison Fellowship Ministries and Affiliate

Table of Contents

Independent Auditor's Report

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

Opinion

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, 2023 and 2022, 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.

In our opinion, the 2023 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, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 2023 audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Prison Fellowship Ministries and Affiliate** and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, **Prison Fellowship Ministries and Affiliate** changed its method of accounting for leases due to the adoption of Accounting Standards Codification (ASC) 842 as of July 1, 2022. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The consolidated financial statements as of June 30, 2022, were audited by Aronson LLC, who merged with Aprio, LLP as of January 1, 2023, and whose report dated September 23, 2023, expressed an unmodified opinion on those statements.

Independent Auditor's Report (Continued)

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Prison Fellowship Ministries and Affiliate**'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **Prison Fellowship Ministries and Affiliate**'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Prison Fellowship Ministries and Affiliate**'s ability to continue as a going concern for a reasonable period of time.

Independent Auditor's Report (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Aprio, LLP

Rockville, Maryland
September 27, 2023

Prison Fellowship Ministries and Affiliate

Consolidated Statements of Financial Position
($ in Thousands)

June 30		**2023**		2022
Assets				
Cash and cash equivalents	**$**	**7,324**	$	10,468
Investments				
Cash and cash equivalents held for long-term use		**776**		6,393
Investments		**37,979**		33,744
Assets held in charitable remainder trusts		**172**		169
Total investments		**38,927**		40,306
Contributions receivable, net		**1,543**		924
Program advances and other receivables		**1,445**		1,067
Prepaid expenses and other assets		**568**		567
Inventory of publications and supplies		**1,093**		934
Beneficial interest in trusts		**977**		906
Cash surrender value of life insurance policies		**142**		134
Right-of-use assets - operating lease		**401**		-
Property and equipment, net		**2,882**		2,067
Total assets	**$**	**55,302**	$	57,373
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	**$**	**3,969**	$	5,850
Accrued salaries and benefits		**1,853**		1,115
Refundable advances		**40**		-
Lease liability - finance lease		**11**		32
Lease liabilities - operating lease		**399**		-
Annuities payable		**2,647**		2,782
Liability under trust agreements		**43**		58
Total liabilities		**8,962**		9,837
Net assets				
Without donor restrictions		**27,215**		25,510
With donor restrictions		**19,125**		22,026
Total net assets		**46,340**		47,536
Total liabilities and net assets	**$**	**55,302**	$	57,373

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, 2023	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	$ 27,996	$ 33,475	$ 61,471
In-kind contributions	886	-	886
Licensing fee	100	-	100
Other revenue	118	-	118
Net assets released from restrictions	36,698	(36,698)	-
Total support and revenue	65,798	(3,223)	62,575
Expenses			
Program services:			
Program ministry	43,721	-	43,721
Public education	3,000	-	3,000
International prison ministry	83	-	83
Total program services	46,804	-	46,804
Supporting services:			
Management and general	4,305	-	4,305
Fundraising	15,443	-	15,443
Total supporting services	19,748	-	19,748
Total expenses	66,552	-	66,552
Change in net assets from operations	(754)	(3,223)	(3,977)
Investment return, net	2,646	231	2,877
Change in value of split-interest agreements	(185)	91	(94)
Loss on sale and disposal of property and equipment	(2)	-	(2)
Change in net assets	1,705	(2,901)	(1,196)
Net assets, beginning of year	25,510	22,026	47,536
Net assets, end of year	$ 27,215	$ 19,125	$ 46,340

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, 2022	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Contributions	$ 28,638	$ 31,754	$ 60,392
In-kind contributions	689	-	689
Licensing fee	75	-	75
Other revenue	38	-	38
Net assets released from restrictions	30,133	(30,133)	-
Total support and revenue	59,573	1,621	61,194
Expenses			
Program services:			
Program ministry	35,394	-	35,394
Public education	3,920	-	3,920
International prison ministry	2,003	-	2,003
Total program services	41,317	-	41,317
Supporting services:			
Management and general	5,367	-	5,367
Fundraising	13,695	-	13,695
Total supporting services	19,062	-	19,062
Total expenses	60,379	-	60,379
Change in net assets from operations	(806)	1,621	815
Investment return, net	(3,355)	(479)	(3,834)
Change in value of split-interest agreements	3	(239)	(236)
Loss on sale and disposal of property and equipment	(91)	-	(91)
Change in net assets	(4,249)	903	(3,346)
Net assets, beginning of year	29,759	21,123	50,882
Net assets, end of year	$ 25,510	$ 22,026	$ 47,536

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, 2023	Program Ministry	Public Education	International Prison Ministry	Total	Management and General	Fundraising	Total	Total
Salaries and related expenses	$ 23,526	$ 2,335	$ 12	$ 25,873	$ 2,717	$ 3,242	$ 5,959	**$ 31,832**
Other expenses								
Donations	2,189	-	69	2,258	-	-	-	**2,258**
Marketing	1,769	89	-	1,858	218	6,557	6,775	**8,633**
Office supplies	249	22	-	271	41	31	72	**343**
Occupancy	184	18	-	202	33	11	44	**246**
Other	148	12	-	160	20	9	29	**189**
Printing and postage	1,993	37	-	2,030	117	4,772	4,889	**6,919**
Professional services	1,356	65	-	1,421	558	173	731	**2,152**
Program materials and supplies	7,674	120	-	7,794	-	-	-	**7,794**
Telecommunication	1,562	115	-	1,677	253	210	463	**2,140**
Travel	2,313	179	2	2,494	257	286	543	**3,037**
Total other expenses	19,437	657	71	20,165	1,497	12,049	13,546	**33,711**
Depreciation and amortization	758	8	-	766	91	152	243	**1,009**
Total expenses	**$ 43,721**	**$ 3,000**	**$ 83**	**$ 46,804**	**$ 4,305**	**$ 15,443**	**$ 19,748**	**$ 66,552**

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, 2022	Program Services				Supporting Services			
	Program Ministry	**Public Education**	**International Prison Ministry**	**Total**	**Management and General**	**Fundraising**	**Total**	**Total**
Salaries and related expenses	$ 18,566	$ 2,323	$ 578	$ 21,467	$ 3,453	$ 2,468	$ 5,921	$ 27,388
Other expenses								
Consulting	1,106	100	3	1,209	79	91	170	1,379
Donations	1,628	-	1,077	2,705	-	-	-	2,705
Materials and supplies	5,098	161	74	5,333	196	83	279	5,612
Occupancy	251	19	33	303	94	18	112	415
Other	1,537	83	134	1,754	479	105	584	2,338
Printing and postage	1,670	83	1	1,754	163	4,016	4,179	5,933
Professional services	3,290	921	5	4,216	564	6,705	7,269	11,485
Repair and maintenance	6	1	-	7	2	-	2	9
Telephone	288	29	1	318	26	29	55	373
Travel	1,597	167	18	1,782	187	146	333	2,115
Total other expenses	16,471	1,564	1,346	19,381	1,790	11,193	12,983	32,364
Depreciation and amortization	357	33	79	469	124	34	158	627
Total expenses	$ 35,394	$ 3,920	$ 2,003	$ 41,317	$ 5,367	$ 13,695	$ 19,062	$ 60,379

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,	**2023**	2022
Cash flows from operating activities		
Change in net assets	**$ (1,196)**	$ (3,346)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	**1,009**	627
Change in contributions receivable discount and allowance	**70**	92
Contributed securities	**-**	(30)
Realized and unrealized (gain) loss on investments	**(1,498)**	4,427
Actuarial loss (gain) on annuity obligations	**188**	(2)
Loss on sale and disposal of property and equipment	**2**	91
Change in cash surrender value of life insurance policies	**(8)**	(9)
(Increase) decrease in:		
Contributions receivable	**(689)**	886
Program advances and other receivables	**(378)**	366
Prepaid expenses and other assets	**(1)**	(100)
Inventory of publications and supplies	**(159)**	(201)
Beneficial interest in trusts	**(71)**	117
Right-of-use assets - operating lease	**115**	-
Increase (decrease) in:		
Accounts payable and accrued expenses	**(1,881)**	2,437
Accrued salaries and benefits	**738**	(497)
Liability under trust agreements	**(15)**	2
Lease liabilities - operating lease	**(117)**	-
Refundable advances	**40**	-
Net cash (used) provided by operating activities	**(3,851)**	4,860
Cash flows from investing activities		
Acquisitions of property and equipment	**(1,826)**	(1,804)
Proceeds from sale of property and equipment	**-**	52
Proceeds from sale of investments	**18,422**	21,541
Purchase of investments	**(21,162)**	(37,237)
Net cash used in investing activities	**(4,566)**	(17,448)
Cash flows from financing activities		
Proceeds from annuity agreements	**24**	78
Payment of annuity obligations	**(347)**	(371)
Payment of finance lease obligation	**(21)**	(30)
Net cash used in financing activities	**(344)**	(323)

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

For the Years Ended June 30,		**2023**		2022
Net change in cash and cash equivalents		**(8,761)**		(12,911)
Cash, cash equivalents, and cash held for long-term use, beginning of year		**16,861**		29,772
Cash, cash equivalents, and cash held for long-term use, end of year	**$**	**8,100**	$	16,861

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 Prison Fellowship 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.

Prison Fellowship Ministries has control over the PFMF board of directors and provides PFMF with administrative 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: These consolidated financial statements are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") applicable to not-for-profit organizations.

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

Net assets without donor restrictions – net assets that are not subject to donor-imposed stipulations.

As of June 30, 2023 and 2022, net assets without donor restrictions included $60 of donor advised funds. These funds are unrestricted by the donor, but have been earmarked by the PFMF Board for the purpose of issuing grants. The balance of the board designed operating reserve totaled $19,479 and $16,622 as of June 30, 2023 and 2022, respectively.

Net assets with donor restrictions – net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Consolidated Statements of Activities and Changes in Net Assets.

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 at three commercial banks, these balances can exceed the FDIC insured deposit limit of $250 per financial institution. At June 30, 2023 and 2022, PFM's cash balances held at the commercial banks exceeded the FDIC limit by approximately $7,183 and $15,926, respectively. Management does not believe that this results in any significant credit risk. PFM has not experienced any losses through the date when the financial statements were available to be issued.

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:

		2023		2022
Cash and cash equivalents	**$**	**7,324**	$	10,468
Cash and cash equivalents held for long-term use		**776**		6,393
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows	**$**	**8,100**	$	16,861

Investments: The fair value of all equity (common stock, mutual funds, fixed income securities, 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 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, 2023 and 2022.

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: Contributions receivable consist of unconditional promises to give that are expected to be collected in future years. Contributions receivable are reported as net assets with donor restrictions unless explicit donor stipulations or circumstances surrounding the promise make clear the donor intended it to be used to support activities of the current period. Contributions receivable are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted rates applicable in the years in which those promises are received. Amortization of the discounts is included in contributions in the accompanying Consolidated Statements of Activities and Changes in Net Assets.

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. For the years ended June 30, 2023 and 2022, the allowance for doubtful accounts totaled $0 and $100, 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 investment 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 for ministry purposes and similar items. Inventory is valued at the lower of costs and net realizable value, based upon the weighted average 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 and equipment: 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: furniture and equipment, five years; and computer hardware and software, three years. Finance 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, 2023 and 2022, 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.

Revenue recognition: The Organization recognizes certain revenue streams under Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (ASC 606). The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The five-step model is outlined below:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Accordingly, the following revenue streams are within the scope of ASC 606:

Licensing fee: PFM entered into an agreement to provide access to a license in exchange for a fixed fee of $1,400, which is payable in 56 equal quarterly payments of $25 starting October 2021 through July 2035. The single performance obligation is satisfied over time and revenue is recognized ratably during the term of the agreement. There are no significant financing components.

License fee for the years ended June 30, 2023 and 2022 totaled $100 and $75, respectively.

Other revenue: Other revenue is primarily made up of miscellaneous income. These related contracts generally have each one performance obligation and the revenue is recognized at a point in time.

The following revenue streams are outside the scope of ASC 606:

Contributions: Contributions are recognized as support and revenues when they are received or unconditionally promised. The Organization reports such gifts as support and revenues with donor restrictions if they are subject to time or donor-imposed restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities and Changes in Net Assets as net assets released from restrictions when a stipulated time restriction ends, purpose restriction is accomplished, or both.

PFM records contributions made to another organization as an expense in the year they are paid or unconditionally promised.

In-kind contributions: In-kind contributions are valued and recorded as revenue at their estimated fair value based upon the Organization's estimate of the wholesale values that would be received for selling the goods in their principal exit markets considering the goods' condition and utility for use at the time of contribution. The Organization does not sell in-kind contributions and only distributes the goods for program use. In-kind contributions primarily consist of donated advertising and inventory for use in programs. Donated advertising has been valued using the market value provided by the donor. Donated materials have been valued using independent sources reflecting the prices paid for the same materials in the principal United States (US) markets, when available; otherwise, the materials have been valued using the market value provided by the donor as well as reviews of prices paid for similar products in the principal US markets.

In-kind contribution expense is recorded when the goods are distributed for program use (See Note 13).

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.

Leases: For operating leases, where the Organization is the lessee, and an initial lease term greater than 12 months, operating lease right-of-use assets ("ROU") and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. ROU assets also include adjustments related to lease payments made and lease incentives received at or before the commencement date. The ROU assets resulting from finance leases are included in property and equipment and the related liabilities are included in the lease liability - finance lease in the Consolidated Statements of Financial Position. At lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted. If the lease does not provide an implicit rate, the Organization made the election to use the risk-free rate. Lease and non-lease components of office equipment and office space lease agreements are accounted for as a single component as a lessee. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. The Organization determines if an arrangement is a lease at inception. All leases are recorded on the Consolidated Statements of Financial Position except for leases with an initial term less than 12 months for which the Organization made the short-term lease election. The Organization had no short-term leases as of June 30, 2023.

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: The consolidated financial statements report certain categories of expenses that are attributable to more than one program or function. As a result, these expenses require allocation on a reasonable basis that is consistently applied within the organization. PFM performs its allocation of such expenses at the individual support department level based on time and effort expended on behalf of the supported program activities, space occupied or shared services utilized by the supported program activities, and purpose and content of various print and electronic communications. 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.

Costs are allocated as follows:

Functional classification of expenses

Program Ministry - PFM staff and volunteers are in prisons each day building communities of good citizens through its Prison Fellowship Academy, which uses targeted curriculum, compassionate coaches, and restorative community to replace participants' criminal thinking and behaviors with renewed purpose and biblically based life principles. Graduates complete the year-long program as change agents inside and outside of prison. PFM also partners with churches and national and local reentry organizations to ensure Academy graduates returning to their communities have the connections and resources necessary to be successful. PFM hosts evangelistic Hope Events and restorative art-based workshops in prison, provides inspiring and educational streaming content to prison television systems and tablets via its Floodlight platform, and provides free bibles, devotionals, and other resources to prison chaplains. PFM Angel Tree equips churches to strengthen relationships between incarcerated parents and their children and support the families of prisoners year-round.

Public Education - Costs related to the efforts of PFM to promote public awareness of justice issues and of PFM initiatives to restore those affected by crime and incarceration. This work is performed via direct mail, news and information outlets, web postings, online webinars, live events, conferences, and other various media.

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.) include costs 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.

Certain costs have been allocated among the areas benefited. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

Expenses	Method of Allocation
Salaries and related expenses	Employee head count
Occupancy	Employee head count
Postage	Joint cost allocation
Printing	Joint cost allocation
Telephone	Employee head count
Repair and maintenance	Employee head count
Depreciation and amortization	Employee head count

Professional fees include expenses that are directly allocated to programs and supporting services, and expenses that are allocated using employee head count and the joint cost allocation.

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, 2023 and 2022, advertising costs approximated $670 and $2,104, 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, 2023 and 2022, 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 2020 through the current year remain open for examination by tax authorities.

Recent accounting pronouncement adopted: The Organization adopted Accounting Standards Codification 842, *Leases*, (ASC 842) effective July 1, 2022. This standard requires lessees to recognize leases on the Consolidated Statement of Financial Position as right-of-use ("ROU") assets and lease liabilities based on the value of the discounted future lease payments. The Organization has elected to apply the modified retrospective adoption method whereby the Organization will apply the guidance to leases in place as of the adoption date ("effective date" method). In adopting ASC 842, the Organization elected to use the practical expedient package, which includes not reevaluating if a contract is or contains a lease, not reevaluating the classification of a lease, and not reevaluating initial direct costs.

Upon adoption, the Organization recognized operating ROU assets and lease liabilities in the amount of $516, using the modified retrospective alternative method. No cumulative-effect adjustments were required.

ASC 842 did not have a significant effect on the accounting for lessee contracts classified as finance leases or lessor contracts classified as operating leases. The adoption of ASC 842 had no material effect on the Consolidated Statements of Activities and Changes in Net Assets, Functional Expenses, and Cash Flows.

Reclassification: Certain 2022 balances have been reclassified to reflect the 2023 presentation.

Subsequent events: Management has evaluated subsequent events for disclosure in these consolidated financial statements through September 27, 2023, which was the date the consolidated financial statements were available to be issued.

($ in Thousands)

2. Investments

Investments (including assets held in charitable remainder trusts) as of June 30, 2023 and 2022, are as follows:

		2023		2022
Cash and equivalents held for long-term use	$	**776**	$	6,393
Equities – common stock		**13,620**		9,185
Mutual funds:				
Equity funds		**9,014**		7,490
Fixed income funds		**15,517**		17,236
Alternative investments:				
Land trusts		**-**		2
Total investments	**$**	**38,927**	$	40,306

3. Fair value

Certain assets were recorded at fair value on a recurring basis as of June 30, 2023 based on the following level of hierarchy:

			Fair Value Measurements	
June 30, 2023	Total	Level 1	Level 2	Level 3
Beneficial interests in trusts	**$ 977**	**$ -**	**$ -**	**$ 977**
Investments:				
Equities – common stock	**$ 13,620**	**$ 13,620**	**$ -**	**$ -**
Mutual funds:				
Equity funds	**9,014**	**9,014**	**-**	**-**
Fixed income funds	**15,517**	**15,517**	**-**	**-**
Total investments	**$ 38,151**	**$ 38,151**	**$ -**	**$ -**

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, 2023:

		Land trusts		**Beneficial interest in trusts**
Beginning balance	**$**	**2**	**$**	**906**
Change in value		**(1)**		**71**
Sales		**(1)**		**-**
Ending balance	**$**	**-**	**$**	**977**

($ in Thousands)

Certain investments and liabilities were recorded at fair value on a recurring basis as of June 30, 2022 based on the following level of hierarchy:

June 30, 2022	Total	Fair Value Measurements Level 1	Level 2	Level 3
Beneficial interests in trusts	$ 906	$ -	$ -	$ 906
Investments:				
Equities – common stock	$ 9,185	$ 9,185	$ -	$ -
Mutual funds:				
Equity funds	7,490	7,490	-	-
Fixed income funds	17,236	17,236	-	-
Land trusts	2	-	-	2
Total investments	$ 33,913	$ 33,911	$ -	$ 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, 2022:

	Land trusts	Beneficial interest in trusts
Beginning balance	$ 2	$ 1,023
Change in value	-	(192)
Additions	-	75
Ending balance	$ 2	$ 906

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.

($ 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, 2023 and 2022.

	Fair Value at 6/30/2023	Fair Value at 6/30/2022	Valuation Techniques	Unobservable Input	Range of Significant Input Values
Beneficial interest in remainder trusts	**$ 561**	$ 516	Income approach Present value of future cash flows	Discount rate Life expectancy	1.3% - 6% Fiscal Year 2023 – 3.0 years Fiscal Year 2022 – 3.2 years
Beneficial interest in perpetual trusts	**$ 416**	$ 390	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:

	2023	2022
Due in 1 year or less	**$ 1,501**	$ 977
Due in 1 to 5 years	**75**	51
Total gross contributions receivable	**1,576**	1,028
Less:		
Allowance	**-**	(100)
Present value discount	**(33)**	(4)
Contributions receivable, net	**$ 1,543**	$ 924

Contributions receivable are discounted to their present value using the risk free rate corresponding with the payment length, which ranged from 5.14% to 5.86% for the year ended June 30, 2023.

As of June 30, 2023, two donors had contribution receivable balances outstanding which represented 27% of total gross contributions receivable.

($ in Thousands)

As of June 30, 2022, four donors had contribution receivable balances outstanding which represented 49% of total gross contributions receivable.

5. Property and equipment

Property and equipment are as follows at June 30:

		2023		2022
Leasehold improvements	**$**	**38**	$	5
Furniture and equipment		**110**		436
Computer hardware		**181**		496
Computer software		**4,270**		2,596
Leased equipment		**45**		45
Internally developed curriculum		**388**		-
Other assets		**209**		-
Total		**5,241**		3,578
Less: Accumulated depreciation and amortization		**(2,772)**		(2,275)
Total		**2,469**		1,303
Work in progress		**413**		764
Property and equipment, net	**$**	**2,882**	$	2,067

Depreciation and amortization expense totaled $1,009 and $627, for the years ended June 30, 2023 and 2022, respectively.

Work in progress consists of internal use software and curriculum developed to be used with program and supporting services. Depreciation will begin once the assets are 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, 2023 and 2022, based on an independent actuarial valuation, is $2,647 and $2,782, respectively.

The 2023 and 2022 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, 4.25% for those issued on or after July 1, 2016, and 3.75% for those issued on or after July 1, 2020.

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 $3,824 and $3,829 as of June 30, 2023 and 2022, respectively. Asset balances at June 30, 2023 and 2022 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, 2023 and 2022, PFM maintained assets totaling $172 and $169, 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, 2023 and 2022 was $43 and $58, respectively, and is classified as liability under trust agreements on the Consolidated Statements of Financial Position.

Beneficial interest in trusts: PFM was named a beneficiary in a few charitable remainder trusts held by third parties. The value of PFM's interest in the trusts totaled $561 and $516, as of June 30, 2023 and 2022, respectively, and is included in net assets with donor restrictions. The changes in the fair value of the trust assets are recognized as net assets with donor restrictions. Distributions received from the trusts are recognized as net assets without donor restrictions unless purpose restricted by the donor.

PFM was named a beneficiary in five perpetual trusts held by third parties. The value of PFM's interest in the trusts totaled of $416 and $390 as of June 30, 2023 and 2022, respectively, and is included in net assets with donor restrictions and the endowment. The changes in the fair value of the trust assets are recognized as net assets with donor restrictions. Distributions received from the trusts are recognized as net assets without donor restrictions unless purpose restricted by the donor.

($ in Thousands)

7. Liquidity and financial assets

The following represents PFM's financial assets as of June 30, 2023 and 2022, reduced by amounts not available for general use, primarily due to contractual or donor-imposed restrictions, within one year of the Consolidated Statements of Financial Position date. PFM's financial assets consist of cash and cash equivalents, investments, contributions receivable and other receivables.

	2023	2022
Financial assets:		
Cash and cash equivalents	**$ 7,324**	$ 10,468
Cash and equivalents held for long-term use	**776**	6,393
Investments	**37,979**	33,744
Contributions receivable, net	**1,543**	924
Other receivables	**1,087**	745
Total financial assets	**48,709**	52,274
Less those unavailable for general expenditure within one year, due to:		
Perpetual restrictions by donor	**(3,413)**	(3,168)
Subject to satisfaction of donor purpose restrictions	**(13,156)**	(16,941)
Subject to satisfaction of donor time restrictions	**(2,479)**	(1,867)
Investments held for planned giving obligations	**(2,912)**	(3,060)
Board designated funds	**(19,479)**	(16,622)
Total financial assets available to meet cash obligations for general expenditures within one year	**$ 7,270**	$ 10,616

PFM is substantially supported by contributions with donor restrictions. Because a donor's restriction requires resources to be used for a particular purpose or in a future period, PFM maintains sufficient resources to meet those responsibilities to its donors and monitors spending for restricted purposes on a monthly basis. Generally, donations received with purpose restrictions are outlaid to cover program expenses within one year upon receipt. $13,156 in financial assets set aside at June 30, 2023 for donor purpose restrictions are available to cover program expenses in the subsequent fiscal year ending June 30, 2024.

As part of PFM's liquidity management, it has a policy to structure its investments to be available as its general expenditures, liabilities and other obligations come due. The board designated funds of $19,479 and $16,622 at June 30, 2023 and 2022, respectively, are intended to support the operations of PFM. The board designated funds can also be drawn upon with the board approval in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

As part of its effort to help facilitate the liquidity, PFM maintains a certain amount of cash as a working capital fund in which PFM management can draw down as cash flow needs for general operational expenditures while the excess is invested in short-term investments. Of the $7,270 of financial assets available as of June 30, 2023, a total of $5,957 represents the balance of PFM's working capital fund. Of the $10,616 of financial assets available as of June 30, 2022, a total of $8,023 represents the balance of PFM's working capital fund.

In addition, PFM maintains a line of credit in the amount of $5,000 with a local bank, which it could draw upon in the event of an unanticipated need. The line of credit expires on January 27, 2024. The interest rate on the line of credit was 7.25% and 3.75% as of June 30, 2023 and 2022, respectively. No balance was drawn on the line of credit as of June 30, 2023 or 2022.

On July 29, 2022, PFM entered into a purchase card agreement with a national bank which helps to manage payables with an overall daily credit limit of $300. The agreement allows more favorable cash rebates but requires funding settlements of daily purchases the next business day.

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, 2023 and 2022, substantially all of PFM's cash, cash equivalents and investment balances were uninsured. For the composition of investment balances at June 30, 2023 and 2022, 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, 2023 and 2022. 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 $769 and $659 for the years ended June 30, 2023 and 2022, respectively.

($ in Thousands)

10. Operating leases

Upon adoption of the new lease standard ASC 842, the Organization evaluated current contracts to determine which met the criteria of a lease. The right-of-use ("ROU") assets represent the Organization's right to use underlying assets for the lease term, and the lease liabilities represent the Organization's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities under the operating leases were calculated based on the present value of future lease payments over the lease terms. The Organization has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate the lease liabilities as of June 30, 2023, was 2.91%. As of June 30, 2023, the weighted-average remaining lease term for the Organization's operating leases was approximately 2.77 years.

PFM has entered into various operating lease agreements, as lessee, primarily for office space and office equipment. Upon the sale of its property and building, PFM entered into an operating lease agreement in May 2021 for an office space with an initial two-year term which did not contain any escalation clause. An addendum to the office lease was signed in March 2022 with reduction in the rented space and corresponding monthly rent amount effective September 1, 2022. The addendum extends the lease through April 30, 2026, and includes an escalation clause which will took effect on May 1, 2023. PFM also entered into lease agreements for additional office space and office equipment which are valid through May 31, 2024 and July 31, 2025, respectively.

For the year ended June 30, 2023, total operating lease cost was $195.

Cash paid for operating leases for the year ended June 30, 2023 was $149.

The future maturities of the lease liabilities at June 30, 2023 are as follows:

Year Ending June 30,	Amount
2024	$ 151
2025	144
2026	121
Total	416
Less: imputed interest	(17)
Lease liabilities - operating	**$ 399**

($ in Thousands)

For the year ended June 30, 2022, under FASB ASC 840 (pre-adoption of the new standard, ASC 842), the difference between rent expense recognized on a straight-line basis and actual cash payments under the lease, is reflected in deferred rent. Total lease expense for all operating leases was $247 for the year ended June 30, 2022.

The future minimum lease payments at June 30, 2022 were as follows:

Year Ending June 30,	Amount	
2023	$	162
2024		139
2025		143
2026		121
Total	**$**	**565**

11. Finance lease

In September 2017, PFM entered into an agreement to lease copiers under a lease which qualifies as a finance lease. During the year ended June 30, 2021, PFM re-negotiated certain terms of the agreement with the lessor. The lease expires in December 2023. In connection with this finance lease, PFM recorded a right-of-use ("ROU") asset and a corresponding lease liability in the amount of $52 at the lease commencement date. The ROU asset under this finance lease is included in property and equipment, and the related liability is included in the lease liability - finance lease in the Consolidated Statements of Financial Position. The ROU asset and lease liability under this finance lease agreements are being amortized over the life of the lease agreement.

As of June 30, 2023 and 2022, the unamortized asset under this finance lease was $11 and $32, respectively. Amortization expense on this finance lease totaled $21 and $20 for the years ended June 30, 2023 and 2022, and was included in depreciation and amortization expense.

The future maturities of the lease liability under this finance lease agreement at June 30, 2023 are as follows:

For the year ending June 30,		
2024	$	12
Less, amount representing interest		(1)
Present value of minimum lease payments	**$**	**11**

Total interest expense incurred on the finance lease was $1 for the years ended June 30, 2023 and 2022.

($ in Thousands)

12. Allocation of joint costs

During 2023 and 2022, PFM incurred joint costs of $11,229 and $10,564, 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:

		2023		2022
Program services	**$**	**1,344**	$	1,255
Supporting services:				
Fundraising		**9,805**		9,201
Management and general		**80**		108
Total	**$**	**11,229**	$	10,564

13. In-kind contributions

The Organization received the following in-kind contributions for the years ended June 30:

		2023		2022
		Without donor restrictions		Without donor restrictions
Public education	**$**	**476**	$	476
Materials		**364**		180
Other		**46**		33
Total in-kind contributions	**$**	**886**	$	689

Except for advertising, the fair value reflects estimated prices that would be received for selling similar products in the United States. Advertising includes $476 received as part of the Google Ad Grants program valued using Google advertising market values for the years ended June 30, 2023 and 2022. It is the Organization's policy not to sell in-kind contributions. All donations are used in programs according to the donor restrictions, or in their absence, according to programmatic needs. Contributions may be held in inventory at year-end, resulting from timing differences between their receipt and utilization in programs.

In-kind contribution expense was utilized as follows for the years ended June 30:

		2023		2022
Public education	**$**	**476**	$	476
Materials		**341**		123
Other		**46**		33
Total in-kind contributions	**$**	**863**	$	632

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 addressed trademarks, office location, fundraising and funding.

In June 2021, PFM and PFI entered into a new agreement, which terminated the previous 2013 agreement. As part of the new agreement, PFM paid a lump sum of $4,200 to PFI as a contribution to terminate the previous agreement during the year ended June 30, 2021.

As mentioned in Note 1, PFM provides licensing to PFI as part of the new agreement. In exchange for the service, PFI agreed to pay PFM a license fee of $1,400, which is payable in 56 equal quarterly payments of $25 starting October 2021 through July 2035. Total licensing fee of $100 and $75 was recorded in connection with this agreement for the years ended June 30, 2023 and 2022, respectively.

The total amount of monetary support provided by PFM to PFI was $69 and $169 in 2023 and 2022, respectively.

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.

($ in Thousands)

16. Net assets with donor restrictions

Perpetual in nature 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 restricted pending distribution by the Board of Directors. Net assets with donor restrictions at June 30, 2023 and 2022, are as follows:

		2023		2022
Perpetual in nature	**$**	**3,655**	$	3,628
Program assistance		**13,232**		16,991
Time restricted for periods after June 30		**2,480**		1,867
Cumulative unappropriated endowment loss – time restricted		**(242)**		(460)
Total	**$**	**19,125**	$	22,026

For the years ended June 30, 2023 and 2022, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time releasing time restrictions:

		2023		2022
Program assistance	**$**	**35,581**	$	29,231
Time restrictions expired		**1,104**		891
Appropriated endowment income		**13**		11
Total	**$**	**36,698**	$	30,133

17. Endowment funds

The Organization had donor-restricted endowment funds totaling $3,655 and $3,628 at June 30, 2023 and 2022, respectively. 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 retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the endowment fund and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us 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 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.

($ in Thousands)

Endowment net assets composition by type of fund as of June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	$ -	$ 3,655	$ 3,655
Cumulative unappropriated endowment loss – time restricted	-	(242)	(242)
Total funds	$ -	$ 3,413	$ 3,413

Changes in endowment net assets for the fiscal year ended June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 3,168	$ 3,168
Contributions	-	-	-
Investment return:			
Investment income	-	88	88
Net appreciation (realized and unrealized)	-	143	143
Total investment income	-	231	231
Appropriations of endowment assets for expenditure	-	(13)	(13)
Change in value of perpetual trusts	-	27	27
Endowment net assets, end of year	$ -	$ 3,413	$ 3,413

($ in Thousands)

Endowment net assets composition by type of fund as of June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	$ -	$ 3,628	$ 3,628
Cumulative unappropriated endowment loss – time restricted	-	(460)	(460)
Total funds	$ -	$ 3,168	$ 3,168

Changes in endowment net assets for the fiscal year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 3,659	$ 3,659
Contributions	-	75	75
Investment return:			
Investment income	-	94	94
Net depreciation (realized and unrealized)	-	(573)	(573)
Total investment loss	-	(479)	(479)
Appropriations of endowment assets for expenditure	-	(11)	(11)
Change in value of perpetual trusts	-	(76)	(76)
Endowment net assets, end of year	$ -	$ 3,168	$ 3,168

($ in Thousands)

Description of amounts classified as net assets with donor restrictions (endowment only):

	2023	2022
Net Assets Perpetual in Nature		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	**$ 3,655**	$ 3,628
Net Assets with Donor Restrictions		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA and without purpose restrictions	**$ (242)**	$ (460)

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 to retain as a fund of perpetual duration. Deficiencies of this nature existed in 2 donor-restricted endowment funds, which totaled $242 and $460 as of June 30, 2023 and 2022, respectively. These deficiencies resulted from unfavorable market fluctuations. These deficiencies will be replenished over time based on market appreciation.

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. Contingency

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 Consolidated 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 $273 and $399 as of June 30, 2023 and 2022, respectively.