

CONSOLIDATED FINANCIAL STATEMENTS

**PRISON FELLOWSHIP INTERNATIONAL
AND AFFILIATES**

FOR THE YEAR ENDED JUNE 30, 2022

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Consolidated Statement of Financial Position, as of June 30, 2022	4
EXHIBIT B - Consolidated Statement of Activities and Change in Net Assets, for the Year Ended June 30, 2022	5
EXHIBIT C - Consolidated Statement of Functional Expenses, for the Year Ended June 30, 2022	6
EXHIBIT D - Consolidated Statement of Cash Flows, for the Year Ended June 30, 2022	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	8 - 16



CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Prison Fellowship International and Affiliates
Ashburn, Virginia

Opinion

We have audited the accompanying consolidated financial statements of the Prison Fellowship International and Affiliates (the Organization), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2022, and the consolidated change in its net assets and its 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 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 Consolidated Financial Statements section of our report. We are required to be independent of the Organization 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.

Responsibilities of Management for the Consolidated 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 consolidated 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 the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

4550 MONTGOMERY AVENUE • SUITE 800 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • WWW.GRFCPA.COM

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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, including omissions, 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 consolidated 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 consolidated 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 consolidated 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 the Organization'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 the Organization's ability to continue as a going concern for a reasonable period of time.

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.

Other Information Included in the Organization's Annual Report

Management is responsible for the other information included in the Organization's annual report. The other information comprises the program expense percentage breakdown but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



November 2, 2022

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2022

ASSETS

Cash and cash equivalents	\$ 5,040,506
Contributions receivable, net	8,130,690
Receivables	20,663
Prepaid expenses	228,107
Inventory, net	191,945
Equipment and furniture, net	637,911
Right-of-use asset, net	<u>459,678</u>
TOTAL ASSETS	<u>\$ 14,709,500</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued liabilities	\$ 374,100
Loan payable	2,000,000
Lease liability	<u>463,537</u>
Total liabilities	<u>2,837,637</u>

NET ASSETS

Without donor restrictions	10,096,913
With donor restrictions	<u>1,774,950</u>
Total net assets	<u>11,871,863</u>

TOTAL LIABILITIES AND NET ASSETS **\$ 14,709,500**

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions:			
Major gifts	4,604,948	2,585,590	7,190,538
Mass donors	1,611,577	357,834	1,969,411
Mid-level donors	418,536	213,050	631,586
Strategic partnerships	10,484	102,102	112,586
In-kind contributions	4,829,849	108,208	4,938,057
Interest and other income	6,475	-	6,475
Net assets released from donor restrictions	<u>2,828,175</u>	<u>(2,828,175)</u>	<u>-</u>
Total support and revenue	<u>14,310,044</u>	<u>538,609</u>	<u>14,848,653</u>
EXPENSES			
Program Services:			
Prison Programs	4,185,955	-	4,185,955
Children's Programs	3,240,897	-	3,240,897
Capacity Building	586,297	-	586,297
Communication and Education	611,106	-	611,106
Membership Services	<u>292,348</u>	<u>-</u>	<u>292,348</u>
Total program services	<u>8,916,603</u>	<u>-</u>	<u>8,916,603</u>
Supporting Services:			
Fundraising	3,067,142	-	3,067,142
Leadership, Facilities and Administration	<u>349,601</u>	<u>-</u>	<u>349,601</u>
Total supporting services	<u>3,416,743</u>	<u>-</u>	<u>3,416,743</u>
Total expenses	<u>12,333,346</u>	<u>-</u>	<u>12,333,346</u>
Change in net assets before other item	1,976,698	538,609	2,515,307
OTHER ITEM			
Gain on foreign currency transactions and remeasurements	<u>42,002</u>	<u>-</u>	<u>42,002</u>
Change in net assets	2,018,700	538,609	2,557,309
Net assets at beginning of year	<u>8,078,213</u>	<u>1,236,341</u>	<u>9,314,554</u>
NET ASSETS AT END OF YEAR	<u>\$ 10,096,913</u>	<u>\$ 1,774,950</u>	<u>\$ 11,871,863</u>

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services					Supporting Services				Total Expenses
	Prison Programs	Children's Programs	Capacity Building	Communications and Education	Membership Services	Total Program Services	Fundraising	Leadership, Facilities and Administration	Total Supporting Services	
Salaries and benefits	\$ 1,050,983	\$ 676,146	\$ 385,449	\$ 275,042	\$ 161,913	\$ 2,549,533	\$ 1,372,178	\$ 308,890	\$ 1,681,068	\$ 4,230,601
Grants and materials donated to National Ministries	1,738,058	1,910,631	86,103	-	-	3,734,792	17,488	-	17,488	3,752,280
Professional fees	364,038	380,849	20,029	257,307	24,340	1,046,563	838,117	12,166	850,283	1,896,846
Printing and postage	560,861	29,411	580	642	1,549	593,043	176,825	290	177,115	770,158
Travel	179,824	32,200	46,202	4,517	5,982	268,725	101,350	1,560	102,910	371,635
Other	20,388	13,222	4,273	14,861	1,391	54,135	244,051	8,756	252,807	306,942
Occupancy	100,499	69,260	20,846	12,573	6,808	209,986	66,127	6,069	72,196	282,182
Software and licenses	48,700	34,324	5,532	28,280	81,817	198,653	73,883	1,648	75,531	274,184
Depreciation and amortization	52,518	40,662	7,356	7,667	3,668	111,871	38,482	4,386	42,868	154,739
Bank fees	11,056	8,429	1,659	1,599	758	23,501	88,931	906	89,837	113,338
Recruiting and relocation	31,878	24,741	4,465	4,654	2,226	67,964	29,815	2,662	32,477	100,441
Interest	27,152	21,022	3,803	3,964	1,896	57,837	19,895	2,268	22,163	80,000
TOTAL	\$ 4,185,955	\$ 3,240,897	\$ 586,297	\$ 611,106	\$ 292,348	\$ 8,916,603	\$ 3,067,142	\$ 349,601	\$ 3,416,743	\$ 12,333,346

See accompanying notes to consolidated financial statements.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 2,557,309
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	154,739
Change in present value discount	6,187
Change in allowance for bad debt	140,469
Change in measurement of operating lease	3,859
Gain on disposal of equipment and furniture	449
Decrease (increase) in:	
Receivables	23,015
Contributions receivable	(4,892,488)
Prepaid expenses	(115,811)
Inventory	375,853
Decrease in:	
Accounts payable and accrued liabilities	<u>(254,594)</u>
Net cash used by operating activities	<u>(2,001,013)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of equipment and furniture	<u>(417,231)</u>
Net cash used by investing activities	<u>(417,231)</u>
Net decrease in cash and cash equivalents	(2,418,244)
Cash and cash equivalents at beginning of year	<u>7,458,750</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 5,040,506</u></u>

SUPPLEMENTAL INFORMATION:

Right-of-Use Asset	<u><u>\$ 553,358</u></u>
Operating Lease Liability for Right-of-Use Asset	<u><u>\$ 553,358</u></u>

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Prison Fellowship International (PFI) is a nonprofit organization founded on August 27, 1979, in the District of Columbia. It has national affiliates in over 115 countries, each of which is an independent organization. Its purpose is to provide services to prisoners, ex-prisoners, and their families around the world through its member affiliates. It works to foster mutual support and assistance and promotes the interchange of successful ministry methods among national ministries.

Principles of consolidation -

The accounts of Prison Fellowship International (USA) have been consolidated with the Prison Fellowship International at Singapore LTD (PFI Singapore), Prison Fellowship International GmbH (PFI Germany) and Prison Fellowship International Canada (PFI Canada), (collectively, the Organization) in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) which require that financially interrelated organizations be consolidated. All intercompany transactions and balances have been eliminated.

Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions".
- **Net Assets with Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are more restrictive than the Organization's mission and purpose. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

New accounting pronouncements adopted -

During the year ended June 30, 2022, the Organization early adopted ASU 2019-01, *Leases* (Topic 842), which changed the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Consolidated Statement of Financial Position and disclosure of key information about leasing arrangements. The Organization applied the new standard at the inception of a new lease that began in fiscal year 2022 and adopted the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. See Note 9 for further details.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

New accounting pronouncements adopted (continued) -

During the year ended June 30, 2022, the Organization also adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The Organization applied the ASU on a retrospective basis. The ASU has no change on the recognition and measurement requirements for those contributed nonfinancial assets.

Cash and cash equivalents -

The Organization considers all cash and other highly liquid investments with initial maturities of twelve months or less to be cash equivalents. Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, the Organization maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

The Organization maintains international offices located in Singapore, Germany, and Canada. The international offices maintain bank accounts, conduct business, and record transactions in their local currencies.

The Organization had approximately \$1,234,000 of cash and cash equivalents held at financial institutions in foreign countries at June 30, 2022. Cash and cash equivalents held in Canada are insured up to \$100,000 CAD per insured category under the CDIC. Cash and cash equivalents held in Germany are insured up to a minimum of €100,000 per depositor and bank under the Deposit Guarantee Act. Cash and cash equivalents held in Singapore are insured up to a minimum of S\$75,000 under the SDIC.

Contributions receivable -

The Organization records contributions receivable when an unconditional promise to give is received at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted rates applicable in the years in which those promises are received. Amortization of the discounts is included in contributions in the accompanying Consolidated Statement of Activities and Change in Net Assets. The present value discount as of June 30, 2022 is \$6,187, based on a discount rate of 4.00%.

Management also records an allowance based on prior years' experience and management's current estimates of potentially uncollectable contributions. The allowance at June 30, 2022 was \$247,389 based on a risk factor of 3.00%. Each gift is assessed for collectability and the allowance is reflected within the rate applied to the discount on contributions receivable.

Contributions receivable promised in a foreign currency are remeasured using the current exchange rate at the reporting date.

Fluctuations in contributions receivable denominated in foreign currencies are recorded as gains and losses and are included in the contributions receivable balance, until realization, at which time the gain and loss is included in foreign currency transactions and remeasurements on the Consolidated Statement of Activities and Change in Net Assets.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Contributions receivable (continued) -

Changes in exchange rates after the date on the Consolidated Statement of Financial Position could have an effect on the balance of contributions receivable. Management has deemed that it is impracticable to determine and disclose the effects.

Receivables -

Receivables are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible within one year. Accordingly, an allowance for doubtful accounts has not been established.

Inventory -

Inventory consists of donated Bibles and other program materials and is measured at the fair value at the date of donation. The inventory is to be distributed to recipients during the normal course of activities. Management determines the allowance for obsolete inventory by identifying non-marketable items and by using historical experience applied to recent disbursed items. There was no allowance as of June 30, 2022. Items are written-off when deemed unmarketable.

Equipment and furniture -

Equipment and furniture in excess of \$500 are capitalized and stated at cost. Equipment and furniture are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Depreciation and amortization expense for the year ended June 30, 2022 totaled \$154,739.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to the Consolidated Statement of Activities and Change in Net Assets, to its current fair value.

Income taxes -

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. The Organization is not a private foundation. PFI Singapore is a registered charity in the Republic of Singapore. PFI Germany is a registered charity in Germany. PFI Canada is a registered charity in Canada. The Organization has no unrelated business income.

Uncertain tax positions -

For the year ended June 30, 2022, the Organization has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Support and revenue -

The Organization's activities are supported by partnership income and contributions. Contributions are recognized in the appropriate category of net assets in the period received.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Support and revenue (continued) -

The Organization performs an analysis of the partnership income and contributions to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

Partnership income and contributions qualifying under the contribution rules is recognized upon notification of the award and satisfaction of all conditions, if applicable. If the contribution is deemed unconditional and has donor restrictions it is recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying consolidated financial statements.

Conditional contributions contain a right of return from obligation provision that limits the Organization on how funds transferred should be spent. Additionally, a barrier is present that is related to the purpose of the agreement. Revenue is recognized when the condition or conditions on which they depend are substantially met. Funds received in advance of substantially meeting the conditions are recorded as refundable advances. For contributions treated as conditional contributions, the Organization had approximately \$1,535,000 in unrecognized awards as of June 30, 2022.

Charter membership fees are contributions from affiliate members. Each affiliate member organization is to pay an annual contribution to the Organization of a flat rate of \$100. However, several affiliate members serve in an advisory capacity to the Organization on global capacity. Those affiliates pay a contribution of at least 6% of their annual revenue. Charter membership fees are recognized when received or unconditionally promised.

In-kind contributions consists of contributed program materials and office space that is rented at a below market rate. Donated goods are recorded at their fair value as of the date of the gift. For the Organization's policy on recording donated facilities, see more detail in Notes 8 and 9.

Foreign currency translation -

The U.S. Dollar is the functional currency for the Organization's worldwide operations. Assets and liabilities denominated in currencies other than U.S. Dollars are translated into Dollars at the exchange rate in effect at the date of the Consolidated Statement of Financial Position. Transactions in currencies other than U.S. Dollars are translated into dollars at the rate of exchange in effect during the month of the transaction. Gains or losses from exchange transactions resulting in foreign currency are recognized as a non-operating expense on the accompanying Consolidated Statement of Activities and Change in Net Assets.

Use of estimates -

The preparation of the 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 at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of the Organization are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

2. CONTRIBUTIONS RECEIVABLE

As of June 30, 2022, contributors to the Organization have made unconditional written promises to give, of which \$8,384,266, remained due and outstanding. Amounts due beyond one year of the Consolidated Statement of Financial Position date have been recorded at the present value of the estimated cash flows, using a discount rate of 4.00%. Management has calculated a 3.00% collectability allowance on donated program materials. Contributions receivable consisted of the following at June 30, 2022:

Program materials	\$ 8,223,893
Donated rent	<u>160,373</u>
TOTAL CONTRIBUTIONS RECEIVABLE	<u>\$ 8,384,266</u>

Following is a schedule of amounts due as of June 30, 2022:

Less than one year	\$ 8,276,058
One to five years	<u>108,208</u>
	8,384,266
Less: Allowance to discount balance to present value	(6,187)
Less: Collectability allowance	<u>(247,389)</u>
NET CONTRIBUTIONS RECEIVABLE	<u>\$ 8,130,690</u>

3. EQUIPMENT AND FURNITURE

Equipment and furniture consisted of the following at June 30, 2022:

Equipment	\$ 37,313
Furniture	235,946
Computer equipment	680,229
Leasehold improvements	<u>62,538</u>
	1,016,026
Less: Accumulated depreciation and amortization	<u>(378,115)</u>
NET EQUIPMENT AND FURNITURE	<u>\$ 637,911</u>

4. LINE OF CREDIT

The Organization has a line of credit in the amount of \$100,000 with a bank in Virginia. The line of credit bears interest at *The Wall Street Journal* Prime Rate and is renewed each year. At June 30, 2022, the Organization had no indebtedness under the line of credit.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

5. LOAN PAYABLE

The Organization has a loan payable in the amount of \$2,000,000 with a foreign entity. The loan bears an interest at a fixed rate of 4% with a maturity date of December 31, 2026. Payments on the loan with the foreign entity will be based upon excess cash flow of the Organization. The outstanding balance was \$2,000,000 at June 30, 2022. Interest expense was \$80,000 for the year ended June 30, 2022. The loan payable is associated with a member of the Organization's Board of Directors.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30, 2022:

Subject to expenditure for specified purpose:	
Prison Programs	\$ 593,807
Children's Programs	495,020
Capacity Building	369,070
Other	<u>118,845</u>
Subtotal	1,576,742
Subject to passage of time	108,208
Endowment to be invested in perpetuity	<u>90,000</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 1,774,950</u>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Purpose restrictions accomplished:	
Prison Programs	\$ 1,108,345
Children's Programs	786,030
Program Partnerships	510,265
Capacity Building	365,601
Other	19,368
Timing restrictions accomplished	<u>38,566</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 2,828,175</u>

7. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Consolidated Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 5,040,506
Receivables	20,663
Contributions receivable	<u>8,130,690</u>
Subtotal financial assets available within one year	13,191,859
Less: In-kind contributions receivable	(8,130,690)
Less: Donor restricted funds for purpose and time restrictions	(1,684,950)
Less: Donor restricted fund for endowment	<u>(90,000)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 3,286,219</u>

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

7. LIQUIDITY AND AVAILABILITY (Continued)

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments. The Organization also has various sources of liquidity at its disposal, including cash and cash equivalents and an available \$100,000 of additional line of credit.

8. IN-KIND CONTRIBUTIONS

During the year ended June 30, 2022, the Organization was the beneficiary of donated rent and program materials which allowed the Organization to provide greater resources toward various programs. To properly reflect total expenses, donated rent and program materials have been included in revenue and expense for the year ended June 30, 2022. There are no donor restrictions over any of the in-kind contributions received during the year ended June 30, 2022.

The Organization received the following in-kind contributions during the year ending June 30, 2022:

Program materials	\$ 4,729,716
Rent	<u>208,341</u>
TOTAL IN-KIND CONTRIBUTIONS	<u>\$ 4,938,057</u>

The following programs have benefited from these in-kind contributions:

Prison Programs	\$ 4,122,059
Children's Programs	732,994
Fundraising	48,823
Capacity Building	15,391
Communication and Education	9,283
Membership Services	5,026
Leadership, Facilities and Administration	<u>4,481</u>
TOTAL PROGRAMS BENEFITED	<u>\$ 4,938,057</u>

Contributed program materials received by the Organization are recorded as in-kind contribution revenue with a corresponding increase to inventory or receivable, depending on the timing of receipt. The Organization valued the contributed program materials using the current price located on a publicly available website as of June 30, 2022.

Donated rent received by the Organization is recorded as in-kind contribution revenue with a corresponding entry to contributions receivable or rent expense depending on the period in which the donated rent is used by the Organization. The Organization valued the donated rent by comparing the cost of the space as noted in the lease agreement to the amount paid by the Organization.

9. LEASE COMMITMENTS

The Organization leases office space at a below market rate. The difference between the estimated rental market rate for comparable office space, and the amount actually charged, is included with In-kind contributions in the Consolidated Statement of Activities and Change in Net Assets. The lease commenced November 1, 2021 and ends June 30, 2025. Base rent is approximately \$159,000 per year with escalations of 2.5% per lease year.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

9. LEASE COMMITMENTS (Continued)

ASU 2019-01, *Leases* (Topic 842), changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Consolidated Statement of Financial Position and disclosure of key information about leasing arrangements. The Organization elected to early implement the ASU and elected the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. The Organization also elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. The Organization adopted the package of practical expedients to not perform any lease reclassification, did not reevaluate embedded leases and did not reassess initial direct costs. As a result, the Organization recorded a right-of-use asset in the amount of \$553,358 and an operating lease liability in the amount of \$553,358 by calculating the present value using the discount rate of 4.75%. The following is a schedule of the future minimum lease payments:

<u>Year Ending June 30,</u>	
2023	\$ 162,144
2024	166,198
2025	<u>170,366</u>
	498,708
Less: imputed interest	<u>(35,171)</u>
	<u>\$ 463,537</u>

Rent expense for the year ended June 30, 2022 was \$194,878 and is included in occupancy expense in the accompanying Statement of Functional Expense.

10. RETIREMENT PLAN

The Organization provides retirement benefits to its employees through a defined contribution plan covering all qualifying United States employees. The Organization's plan consists of mandatory employee contributions of 2% of their annual salary with the Organization currently contributing 4% of their annual salary. Employees vest 100% in all contributions as they are made. International employees receive retirement benefits in accordance with laws in their respective locations. Retirement expense for all employees during the year ended June 30, 2022 totaled \$75,927.

11. STRATEGIC PARTNER

In June 2021, Prison Fellowship USA (PF USA) and the Organization entered into a trademark licensing agreement. In consideration of the licenses granted, the Organization shall pay PF USA license fees totaling \$25,000 quarterly, beginning October 31, 2021 through July 31, 2035. The agreement expires on July 31, 2035 with automatic renewal for a successive ten-year term unless terminated earlier.

12. COMMITMENTS

At June 30, 2022, the Organization has committed approximately \$4,866,000 in conditional grants. The amounts will be expensed as the grantee materially satisfies the conditions stipulated.

PRISON FELLOWSHIP INTERNATIONAL AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2022

13. ENDOWMENT

The Organization's endowment consists of donor-restricted endowment funds in the amount of \$90,000. This amount is included in cash and cash equivalents as of June 30, 2022. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures.

Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the Organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the Organization.

14. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 2, 2022, the date the consolidated financial statements were issued.