# MATTHEW 25, INCORPORATED

## FINANCIAL STATEMENTS

## June 30, 2011

## MATTHEW 25, INCORPORATED

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Matthew 25, Incorporated
Nashville, Tennessee

We have audited the accompanying statement of financial position of Matthew 25, Incorporated, (a Tennessee non-profit organization) (the "Organization") as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because of the inadequacy of accounting records, we were unable to satisfy ourselves about activity surrounding resident deposits, as well as certain support and expenses by means of other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about resident deposits and certain support and expenses, the financial statements referred to above present fairly, in all material respects, the financial position of Matthew 25, Incorporated as of June 30, 2011, and the change in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Frasier, Dean + Howard, PLLC

November 30, 2011

**MATTHEW 25, INCORPORATED**
**STATEMENT OF FINANCIAL POSITION**
**June 30, 2011**

**Assets**

| | | |
|---|---|---|
| Cash | $ | 74,980 |
| Grant receivable | | 24,274 |
| Investments | | 81,076 |
| Prepaid expenses and other assets | | 1,292 |
| Property and equipment | | 6,098 |
| Total assets | $ | 187,720 |

**Liabilities and Net Assets**

| | | |
|---|---|---|
| Accounts payable | $ | 5,907 |
| Accrued expenses | | 10,817 |
| Resident deposits | | 21,504 |
| Total liabilities | | 38,228 |
| Unrestricted net assets | | 149,492 |
| Total liabilities and net assets | $ | 187,720 |

See accompanying notes.

**MATTHEW 25, INCORPORATED**
**STATEMENT OF ACTIVITIES**
**For the Year Ended June 30, 2011**

| | |
|---|---|
| Revenue and other support: | |
| Federal financial assistance | $ 291,167 |
| Contributions | 210,723 |
| Program service fees | 45,743 |
| Other income | 8,540 |
| Investment income | 6,557 |
| Total revenue and other support | 562,730 |
| Expenses: | |
| Program services: | |
| HUD progressive housing | 77,681 |
| Transitional programs | 218,790 |
| Veteran affairs programs | 260,508 |
| Supporting services: | |
| Management and general | 28,989 |
| Fundraising | 21,106 |
| Total expenses | 607,074 |
| Change in net assets | (44,344) |
| Unrestricted net assets, beginning of year | 193,836 |
| Unrestricted net assets, end of year | $ 149,492 |

See accompanying notes.

**MATTHEW 25, INCORPORATED**
**STATEMENT OF FUNCTIONAL EXPENSES**
**For the Year Ended June 30, 2011**

| | Program Services | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|
| | **HUD Progressive Housing** | **Transitional Programs** | **Veteran Affairs Programs** | **Total Program Services** | **Management and General** | **Fundraising** | **Total Supporting Services** | **Total Expenses** |
| Payroll and related expenses | $ 28,163 | $ 120,971 | $ 135,821 | $ 284,955 | $ 18,845 | $ 12,428 | $ 31,273 | $ 316,228 |
| Food and supplies - donated | - | 30,138 | 45,209 | 75,347 | - | - | - | 75,347 |
| Rent | 29,171 | 17,889 | 19,922 | 66,982 | 2,846 | - | 2,846 | 69,828 |
| Food and supplies | - | 11,656 | 17,483 | 29,139 | - | - | - | 29,139 |
| Miscellaneous | 12,731 | 6,272 | 6,584 | 25,587 | 1,233 | 39 | 1,272 | 26,859 |
| Contract labor | 1,935 | 7,214 | 8,069 | 17,218 | 1,102 | 738 | 1,840 | 19,058 |
| Insurance | 1,845 | 6,878 | 7,693 | 16,416 | 1,050 | 704 | 1,754 | 18,170 |
| Maintenance and repairs | 1,155 | 4,154 | 4,818 | 10,127 | 658 | 441 | 1,099 | 11,226 |
| Professional fees | 909 | 3,389 | 3,791 | 8,089 | 517 | 347 | 864 | 8,953 |
| Utilities | 704 | 2,625 | 2,936 | 6,265 | 401 | 269 | 670 | 6,935 |
| Office supplies | 634 | 2,365 | 2,646 | 5,645 | 603 | 242 | 845 | 6,490 |
| Fundraising | - | - | - | - | - | 5,733 | 5,733 | 5,733 |
| Furniture and equipment | 362 | 1,350 | 1,510 | 3,222 | 206 | 138 | 344 | 3,566 |
| Automotive expenses | - | 1,493 | 1,493 | 2,986 | - | - | - | 2,986 |
| Drug testing | - | 1,244 | 1,244 | 2,488 | - | - | - | 2,488 |
| Depreciation | - | 885 | 990 | 1,875 | 232 | - | 232 | 2,107 |
| Postage | - | - | - | - | 1,255 | - | 1,255 | 1,255 |
| Education and job training | 72 | 267 | 299 | 638 | 41 | 27 | 68 | 706 |
| Total | $ 77,681 | $ 218,790 | $ 260,508 | $ 556,979 | $ 28,989 | $ 21,106 | $ 50,095 | $ 607,074 |

See accompanying notes.

**MATTHEW 25, INCORPORATED**
**STATEMENT OF CASH FLOWS**
**For the Year Ended June 30, 2011**

| | |
|---|---|
| Cash flows from operating activities: | |
| Change in net assets: | $ (44,344) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | |
| Depreciation | 2,107 |
| Gain on investments | (1,452) |
| Changes in operating assets and liabilities: | |
| Grant receivable | (3,362) |
| Prepaid expenses and other assets | 2,563 |
| Accounts payable | 3,444 |
| Accrued expenses | (419) |
| Resident deposits | (11,627) |
| Net cash used in operating activities | (53,090) |
| Cash flows from investing activities: | |
| Purchases of investments | (5,105) |
| Proceeds from sale of investments | 45,099 |
| Purchase of property and equipment | (5,300) |
| Net cash provided by investing activities | 34,694 |
| Net decrease in cash and cash equivalents | (18,396) |
| Cash and cash equivalents at beginning of year | 93,376 |
| Cash and cash equivalents at end of year | $ 74,980 |

See accompanying notes.

**MATTHEW 25, INCORPORATED**
**NOTES TO FINANCIAL STATEMENTS**
**June 30, 2011**

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Matthew 25, Incorporated ("the Organization") was incorporated in Tennessee on February 11, 1986, as a not-for-profit corporation, to provide shelter and other assistance to homeless persons in the Metropolitan Nashville – Davidson County, Tennessee area. The Organization also assists with vocational training and job placement of homeless people. The Organization is supported primarily through donor contributions, governmental grants, and private agency funding.

### Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions which are restricted for specific programs are reflected as unrestricted revenue if these funds are received and spent during the same fiscal year. The Organization had no temporarily restricted net assets at June 30, 2011.

*Permanently restricted net assets* – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned for unrestricted purposes. The Organization had no permanently restricted net assets at June 30, 2011.

### Use of Estimates

The preparation of 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 financial statements, and the reported amounts of revenues and expenses and allocation of functional expenses during the reporting period. Accordingly, actual results could differ from those estimates

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents. The cash accounts are held primarily by financial institutions and at times may exceed amounts that are federally insured. Cash balances were within federally insured limits at June 30, 2011.

### Investments

The Organization accounts for investments under the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidance for investments by not-for-profit organizations. Under this guidance, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

### Fair Values

The Organization has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Generally accepted accounting principles have a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are explained as follows:

*Level 1* – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2* – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

*Level 3* – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property and Equipment

Property and equipment are recorded at cost if purchased or fair value if contributed. Expenditures for ordinary maintenance and repairs are charged to operations. Renewals and betterments that materially extend the life of the asset are capitalized. Depreciation is provided in amounts necessary to allocate the cost of the various classes of assets over their estimated useful lives. Estimated useful lives of all major classes of assets are as follows:

| | |
|---|---|
| Leasehold improvements | 2 - 10 years |
| Furniture and equipment | 5 - 7 years |
| Vehicles | 5 years |

### Income Taxes

The Organization is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income taxes is included in the accompanying financial statements.

The Organization follows guidance concerning the accounting for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended June 30, 2008 through June 30, 2011. The Organization had no uncertain tax positions at June 30, 2011.

### Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services based on estimates made by management.

### Donated Materials, Services and Assets

Donated materials and equipment, if any, are reflected as contributions in the accompanying statements at their estimated values at the date of receipt.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Subsequent Events

The Organization evaluated subsequent events through November 30, 2011, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the date of this report that would have a material impact on the accompanying financial statements.

## NOTE 2 – RESTRICTED CASH

Cash of $19,838 as of June 30, 2011, is held by the Organization as trustee under a savings plan for the benefit of the residents.

## NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2011:

| | |
|---|---|
| Equipment | $ 38,646 |
| Furniture | 15,821 |
| Vehicles | 8,648 |
| Leasehold improvements | 2,624 |
| | 65,739 |
| Less accumulated depreciation | (59,641) |
| Net property and equipment | $ 6,098 |

## NOTE 4 – DONATED SERVICES AND MATERIALS

Numerous individuals volunteer their time and perform a variety of tasks that assist the Organization with its programs and supporting activities. No amounts have been reflected in the financial statements for the benefit received and the resulting expense, because the criteria for recognition under accounting standards is not met.

During the year, several restaurants donated food and kitchen supplies to the Organization. These items were used in providing food to homeless individuals. The estimated fair value of the contributions was $75,347 and is included in these financial statements.

## NOTE 5 – LEASING ARRANGEMENTS

The facility used by the Organization for its program services is leased from a governmental entity on a year-to-year basis, and is classified as an operating lease. The annual rent includes insurance, utilities, and certain maintenance. The lease requires monthly payments of $2,816 through September 2011. Subsequent to June 30, 2011, the lease was renewed for one year under the same terms.

Additionally, the Organization leases other housing used in its progressive housing program, classified as operating leases. The Organization, in turn, has short-term subleases with residents who participate in the progressive housing program and Vine Hill on-site program. Management expects that in the normal course of operations, the leases will be renewed or replaced by other leases.

Total rent expense for all operating leases was $69,828 for the year ended June 30, 2011. Revenue received from residents under subleases totaled $43,468 for the year ended June 30, 2011.

## NOTE 6 – CONCENTRATIONS

The Organization receives a substantial amount of its support from governmental agencies. A significant reduction in the level of this support, if this were to occur, may have an effect on the Organization's programs and activities.

## NOTE 7 – INVESTMENTS AND FAIR VALUE DISCLOSURES

Investments are stated at fair value with fair value determined based on active markets (Level 1) and consist of the following at June 30, 2011:

| | |
|---|---|
| Bond mutual funds: | |
| Intermediate term bond funds | $ 59,497 |
| World bond funds | 20,104 |
| Short term bond funds | 1,475 |
| | $ 81,076 |

The following schedule summarizes the investment income in the statement of activities for the year ended June 30, 2011:

| | |
|---|---|
| Interest and dividend income (including interest on cash and cash equivalents) | $ 5,105 |
| Net unrealized and realized gain on investments | 1,452 |
| | $ 6,557 |