MATTHEW 25, INCORPORATED

FINANCIAL STATEMENTS

June 30, 2012

MATTHEW 25, INCORPORATED

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FRASIERDEAN
HOWARDCPAs

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 nonprofit organization) as of June 30, 2012, 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.

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Matthew 25, Incorporated as of June 30, 2012, and the changes in its 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 19, 2012

MATTHEW 25, INCORPORATED
STATEMENT OF FINANCIAL POSITION
June 30, 2012

Assets

Cash and cash equivalents, including amounts held for residents of $16,327	$	38,726
Grant receivable		27,157
Investments		58,621
Property and equipment, net		4,250
Total assets	$	128,754

Liabilities and Net Assets

Accounts payable	$	39,862
Accrued expenses		14,879
Resident deposits		16,327
Total liabilities		71,068
Unrestricted net assets		57,686
Total liabilities and net assets	$	128,754

See accompanying notes.

MATTHEW 25, INCORPORATED
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Revenue and other support:		
Federal financial assistance	$	304,350
Contributions		138,179
Program service fees		60,981
Other income		4,824
Investment income, net		2,571
Total revenue and other support		510,905
Expenses:		
Program services:		
HUD progressive housing		66,935
Transitional programs		162,248
Veteran affairs programs		254,609
Total program services		483,792
Supporting services:		
Management and general		79,107
Fundraising		39,812
Total supporting services		118,919
Total expenses		602,711
Change in net assets		(91,806)
Unrestricted net assets, beginning of year		149,492
Unrestricted net assets, end of year	$	57,686

See accompanying notes.

MATTHEW 25, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012

	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	$ 27,207	$ 102,492	$ 162,233	$ 291,932	$ 61,373	$ 6,103	$ 67,476	$ 359,408
Rent	29,373	12,503	17,910	59,786	3,379	-	3,379	63,165
Food and supplies	-	17,400	26,293	43,693	550	-	550	44,243
Professional fees	-	11,523	16,506	28,029	3,355	-	3,355	31,384
Special events	-	-	-	-	-	19,919	19,919	19,919
Insurance	-	5,980	8,566	14,546	1,616	-	1,616	16,162
Program expenses	10,185	-	5,225	15,410	-	-	-	15,410
Contract labor	150	175	251	576	47	13,742	13,789	14,365
Utilities	-	3,025	4,334	7,359	834	-	834	8,193
Maintenance and repairs	-	2,703	4,257	6,960	294	-	294	7,254
Miscellaneous	20	278	407	705	6,231	-	6,231	6,936
Office supplies	-	2,477	3,547	6,024	669	48	717	6,741
Transportation	-	1,522	2,261	3,783	348	-	348	4,131
Drug testing	-	1,013	1,403	2,416	105	-	105	2,521
Depreciation	-	776	869	1,645	203	-	203	1,848
Postage	-	381	547	928	103	-	103	1,031
Total	$ 66,935	$ 162,248	$ 254,609	$ 483,792	$ 79,107	$ 39,812	$ 118,919	$ 602,711

See accompanying notes.

MATTHEW 25, INCORPORATED
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012

Cash flows from operating activities:		
Change in net assets:	$	(91,806)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation		1,848
Loss on investments		1,591
Changes in operating assets and liabilities:		
Grant receivable		(2,883)
Prepaid expenses and other assets		1,292
Accounts payable		33,955
Accrued expenses		4,062
Resident deposits		(5,177)
Net cash used in operating activities		(57,118)
Cash flows from investing activities:		
Purchases of investments		(4,211)
Proceeds from sale of investments		25,075
Net cash provided by investing activities		20,864
Net decrease in cash and cash equivalents		(36,254)
Cash and cash equivalents at beginning of year		74,980
Cash and cash equivalents at end of year	$	38,726

See accompanying notes.

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 governmental grants, donor contributions, 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, 2012.

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, 2012.

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, 2012.

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 a 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

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Therefore, no provision for income taxes has been made.

The Organization follows FASB ASC guidance clarifying the accounting for uncertainty in income taxes recognized in an organization'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 the years ended June 30, 2009 through June 30, 2012.

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 19, 2012, 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 – 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, 2012:

Bond mutual funds:	
Intermediate term bond funds	$ 37,313
World bond funds	19,818
Short term bond funds	1,490
	$ 58,621

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

Interest and dividend income (including interest on cash and cash equivalents)	$ 4,162
Net unrealized and realized loss on investments	(1,591)
	$ 2,571

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2012 consists of the following:

Equipment	$ 36,871
Furniture	15,821
Leasehold improvements	2,624
	55,316
Less accumulated depreciation	(51,066)
Net property and equipment	$ 4,250

NOTE 4 – RESTRICTED CASH

Cash of $16,327 as of June 30, 2012 is held by the Organization as trustee under a savings plan for the benefit of the residents.

NOTE 5 – 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 $8,066 for the year ended June 30, 2012, and is included in these financial statements.

NOTE 6 – 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 2012. Subsequent to June 30, 2012, 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 $63,165 for the year ended June 30, 2012. Revenue received from residents under subleases totaled $49,618 for the year ended June 30, 2012.

NOTE 7 – 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.