



AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003

MATTHEW 25, INCORPORATED  
AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003

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**Davidson, Golden & Lundy, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

*INDEPENDENT AUDITORS' REPORT*

The Governing Board  
Matthew 25, Incorporated  
Nashville, Tennessee

We have audited the accompanying statements of assets, liabilities, and net assets---modified cash basis of Matthew 25, Incorporated (a nonprofit organization), as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and other changes in net assets---modified cash basis, and functional expenses---modified cash basis, for the years then ended. These financial statements are the responsibility of Matthew 25, Incorporated's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Matthew 25, Incorporated as of June 30, 2004 and 2003, and its revenues, expenses, and other changes in net assets, and functional expenses for the years then ended, on the basis of accounting described in Note 1.

*Davidson, Golden & Lundy, P.C.*

October 20, 2004

MATTHEW 25, INCORPORATED  
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS  
MODIFIED CASH BASIS  
JUNE 30, 2004 AND 2003

*ASSETS*

	<u>2004</u>	<u>2003</u>
<i>Current Assets</i>		
Cash and cash equivalents - Note 2	\$ 92,312	\$104,071
Refundable deposits and other cash advances	6,469	-
Prepaid educational materials - Note 1	2,134	2,464
Inventories - Note 1	480	482
Total current assets	<u>101,395</u>	<u>107,017</u>
<i>Noncurrent Assets</i>		
Investments – Note 1	170,733	187,728
Prepaid educational materials - Note 1	1,097	3,231
Property and equipment - Notes 1 and 3	<u>10,257</u>	<u>15,332</u>
	<u>182,087</u>	<u>206,291</u>
Total assets	<u>\$283,482</u>	<u>\$313,308</u>

*LIABILITIES AND NET ASSETS*

<i>Current Liabilities</i>		
Withheld payroll deductions	\$ 1,696	\$ 2,926
Resident deposits	<u>54,539</u>	<u>49,575</u>
Total current liabilities	<u>56,235</u>	<u>52,501</u>
<i>Net Assets</i>		
Unrestricted	214,236	251,288
Temporarily restricted - Note 7	<u>13,011</u>	<u>9,519</u>
Total net assets	<u>227,247</u>	<u>260,807</u>
Total liabilities and net assets	<u>\$283,482</u>	<u>\$313,308</u>

See notes to financial statements.

MATTHEW 25, INCORPORATED  
STATEMENT OF REVENUE, EXPENSES, AND  
OTHER CHANGES IN NET ASSETS  
MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<i>Revenues, Gains, and Other Support:</i>			
Direct public support	\$ 93,763	\$ 5,000	\$ 98,763
Indirect public support	54,990	-	54,990
Program revenue and grants from governmental agencies	123,872	-	123,872
Other program revenue	56,783	-	56,783
Investment income	1,979	-	1,979
Other	2,568	-	2,568
Net assets released from restrictions	<u>1,508</u>	<u>( 1,508)</u>	<u>-</u>
Total revenues, gains, and other support	<u>335,463</u>	<u>3,492</u>	<u>338,955</u>
<i>Expenses and Losses:</i>			
Program services:			
Emergency shelter and food	199,398	-	199,398
Vocational training and placement	<u>83,637</u>	<u>-</u>	<u>83,637</u>
Total program services	<u>283,035</u>	<u>-</u>	<u>283,035</u>
Supporting services:			
Management and general	59,349	-	59,349
Fund raising	<u>30,131</u>	<u>-</u>	<u>30,131</u>
Total supporting services	<u>89,480</u>	<u>-</u>	<u>89,480</u>
Total expenses	<u>372,515</u>	<u>-</u>	<u>372,515</u>
Change in net assets	( 37,052)	3,492	( 33,560)
Net assets at beginning of year	<u>251,288</u>	<u>9,519</u>	<u>260,807</u>
Net assets at end of year	<u>\$214,236</u>	<u>\$13,011</u>	<u>\$227,247</u>

See notes to financial statements.

MATTHEW 25, INCORPORATED  
STATEMENT OF REVENUE, EXPENSES, AND  
OTHER CHANGES IN NET ASSETS  
MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<i>Revenues, Gains, and Other Support:</i>			
Direct public support	\$120,065	\$3,785	\$123,850
Indirect public support	59,482	-	59,482
Program revenue and grants from governmental agencies	148,126	-	148,126
Other program revenue	41,866	-	41,866
Investment income	2,365	-	2,365
Other	2,404	-	2,404
Net assets released from restrictions	<u>2,977</u>	<u>( 2,977)</u>	<u>-</u>
Total revenues, gains, and other support	<u>377,285</u>	<u>808</u>	<u>378,093</u>
<i>Expenses and Losses:</i>			
Program services:			
Emergency shelter and food	212,674	-	212,674
Vocational training and placement	<u>73,561</u>	<u>-</u>	<u>73,561</u>
Total program services	<u>286,235</u>	<u>-</u>	<u>286,235</u>
Supporting services:			
Management and general	59,077	-	59,077
Fund raising	<u>24,684</u>	<u>-</u>	<u>24,684</u>
Total supporting services	<u>83,761</u>	<u>-</u>	<u>83,761</u>
Total expenses	369,996	-	369,996
Loss on investments	<u>443</u>	<u>-</u>	<u>443</u>
Total expenses and losses	<u>370,439</u>	<u>-</u>	<u>370,439</u>
Change in net assets	6,846	808	7,654
Net assets at beginning of year	<u>244,442</u>	<u>8,711</u>	<u>253,153</u>
Net assets at end of year	<u>\$251,288</u>	<u>\$9,519</u>	<u>\$260,807</u>

See notes to financial statements.

MATTHEW 25, INCORPORATED  
STATEMENT OF FUNCTIONAL EXPENSES  
MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Program Services</u>		<u>Supporting Services</u>		
	<u>Emergency Shelter And Food</u>	<u>Vocational Training and Placement</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total Expenses</u>
Payroll and related expenses	\$118,861	\$72,664	\$33,919	\$22,419	\$247,863
Rent	28,723	1,690	3,379	-	33,792
Food and supplies	30,243	-	-	-	30,243
Insurance	4,103	1,470	5,975	382	11,930
Depreciation	3,208	796	893	179	5,076
Office supplies	951	951	1,903	5,708	9,513
Maintenance and repairs	7,289	429	857	-	8,575
Professional fees	-	-	8,920	-	8,920
Telephone	1,356	1,356	1,810	-	4,522
Automotive gas and expense	1,644	205	205	-	2,054
Drug test	2,629	-	-	-	2,629
Job training	-	4,024	-	-	4,024
Postage	52	52	207	724	1,035
Miscellaneous	<u>339</u>	<u>-</u>	<u>1,281</u>	<u>719</u>	<u>2,339</u>
Totals	<u>\$199,398</u>	<u>\$83,637</u>	<u>\$59,349</u>	<u>\$30,131</u>	<u>\$372,515</u>

See notes to financial statements.

MATTHEW 25, INCORPORATED  
STATEMENT OF FUNCTIONAL EXPENSES  
MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Program Services</u>		<u>Supporting Services</u>		
	<u>Emergency Shelter And Food</u>	<u>Vocational Training and Placement</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total Expenses</u>
Payroll and related expenses	\$124,433	\$63,824	\$31,033	\$15,053	\$234,343
Rent	28,723	1,690	3,379	-	33,792
Food and supplies	31,877	-	-	-	31,877
Insurance	5,588	2,113	5,713	449	13,863
Depreciation	3,784	939	1,056	212	5,991
Office supplies	798	798	1,596	4,786	7,978
Maintenance and repairs	4,958	292	583	-	5,833
Professional fees	-	-	8,914	-	8,914
Telephone	1,368	1,367	2,735	-	5,470
Automotive gas and expense	2,036	255	254	-	2,545
Drug test	8,757	-	-	-	8,757
Job training	-	2,155	2,727	275	5,157
Postage	128	128	513	1,793	2,562
Miscellaneous	<u>224</u>	<u>-</u>	<u>574</u>	<u>2,116</u>	<u>2,914</u>
Totals	<u>\$212,674</u>	<u>\$73,561</u>	<u>\$59,077</u>	<u>\$24,684</u>	<u>\$369,996</u>

See notes to financial statements.



MATTHEW 25, INCORPORATED  
NOTES TO FINANCIAL STATEMENTS  
MODIFIED CASH BASIS  
JUNE 30, 2004 AND 2003

*Note 1 - Nature of Activities and Summary of Significant Accounting Policies*

*Nature of Activities*

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.

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

*Basis of Reporting*

The organization's financial statements are presented on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The modified cash basis of accounting is commonly followed by not-for-profit entities the organization's size. Consequently, support and revenues are recognized when received rather than when earned, and expenses are recognized when paid, rather than when the obligation is incurred.

*Financial Statement Presentation*

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the organization is required to report information regarding its net assets, revenues and expenses according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Investments*

The organization carries investments in marketable securities with readily determinable fair values, and all investments in debt securities at their fair values in the statement of assets, liabilities, and net assets. Unrealized gains and losses are included in the change in net assets in the statement of revenues, expenses, and other changes in net assets.

## NOTES TO FINANCIAL STATEMENTS

### *Note 1 - Continued*

#### *Prepaid Educational Materials*

Educational materials are amortized over three to five years using the straight-line method.

#### *Inventories*

Inventories are stated at cost.

#### *Property and Equipment.*

Property and equipment is recorded at cost or, if contributed, at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is calculated using the straight-line method over the estimated useful life of the asset.

The organization's policy is to capitalize property and equipment whose cost (fair value if donated) equals or exceeds a specific dollar range depending on the type of asset. Improvements that increase the value of the asset, or increase the estimated useful life of the asset, are capitalized if it equals or exceeds the appropriate dollar range.

#### *Income Tax Status*

The organization is exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). However, income from activities not directly related to the organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the organization qualifies for the charitable contribution deduction under section 170(b)(1)(A) of the Code, and has been classified as an organization that is not a private foundation under section 509(a) of the Code, as described in section 509(a)(1).

#### *Contributions*

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period the contribution is received, the organization reports the support as unrestricted.

#### *Functional Expenses*

The costs of providing the various programs and other activities are presented on a functional basis in the accompanying financial statements. Accordingly, certain costs are allocated among the programs and supporting services benefited.

## NOTES TO FINANCIAL STATEMENTS

### *Note 2 - Restricted Cash*

Cash of \$54,539 and \$49,575 as of June 30, 2004 and 2003, respectively, is held by the organization as trustee under a savings plan for the benefit of the residents. Additionally, at June 30, 2004 and 2003, cash of \$13,011 and \$9,519, respectively, is restricted by donors for the procurement of furniture, educational programs and transportation cost.

### *Note 3 - Property and Equipment*

Property and equipment consist of the following:

	<u>2004</u>	<u>2003</u>
Equipment	\$34,670	\$34,670
Furniture and fixtures	14,837	14,837
Vehicles	9,447	9,447
Leasehold improvements	<u>2,624</u>	<u>2,624</u>
	61,578	61,578
Accumulated depreciation	<u>51,321</u>	<u>46,246</u>
Total	<u>\$10,257</u>	<u>\$15,332</u>

The State of Tennessee has a reversionary interest in equipment purchased with grant proceeds which had no book value at June 30, 2004 and 2003.

### *Note 4 - Contributed Services*

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.

### *Note 5 - Description of 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. Management expects that in the normal course of operations, the lease will be renewed or replaced by other leases.

## NOTES TO FINANCIAL STATEMENTS

### *Note 6 - Operating Leases*

Total rent expense for all operating leases except those with terms of a month or less that were not renewed is \$33,792 for each of the years ended June 30, 2004 and 2003, respectively.

### *Note 7 - Temporarily Restricted Net Assets*

Temporarily restricted net assets are available for the following purposes:

	<u>2004</u>	<u>2003</u>
Furniture	\$ 5,144	\$5,734
Education	3,785	3,785
Transportation costs	<u>4,082</u>	<u>-</u>
	<u>\$13,011</u>	<u>\$9,519</u>

### *Note 8 - Net Assets Released from Restrictions*

Net assets of \$1,508 and \$2,977 are released from restrictions for the years ended June 30, 2004 and 2003, because of the satisfaction of purpose restrictions.

### *Note 9 - Contingencies*

#### *Concentration of Support*

The organization receives a substantial amount of its support from federal and state governments and a private agency. 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.

#### *Concentration of Credit Risks*

The organization has concentrated its credit risk for cash and cash equivalents by maintaining deposits in financial institutions located within the same geographic region. The maximum loss that would have resulted from that risk totaled \$70,733 and \$87,689 as of June 30, 2004 and 2003, respectively, for the excess of the deposit liabilities reported by the financial institutions over amounts that would have been covered by federal insurance. The organization does not believe it is subject to any unusual credit risk beyond the customary credit risk attendant with conducting its nonprofit activities.