MATTHEW 25, INCORPORATED

FINANCIAL STATEMENTS

June 30, 2013

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 financial statements of Matthew 25, Incorporated (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2013, and the changes 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.

Frasier, Dean & Howard, PLLC

November 18, 2013

MATTHEW 25, INCORPORATED
STATEMENT OF FINANCIAL POSITION
June 30, 2013

Assets

Cash and cash equivalents, including amounts held for residents of $19,183	$	60,620
Grant receivable		27,823
Investments		10,110
Property and equipment, net		11,249
Prepaid expenses		3,505
Total assets	$	113,307

Liabilities and Net Assets

Accounts payable	$	6,878
Accrued expenses		13,797
Resident deposits		19,183
Total liabilities		39,858
Unrestricted net assets		73,449
Total liabilities and net assets	$	113,307

See accompanying notes.

MATTHEW 25, INCORPORATED
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Revenue and other support:	
Federal financial assistance	$ 360,317
Contributions	146,347
Program service fees	50,419
Other income	2,129
Investment income, net	2,049
Total revenue and other support	561,261
Expenses:	
Program services:	
HUD progressive housing	69,726
Transitional programs	96,957
Veteran affairs programs	331,860
Total program services	498,543
Supporting services:	
Management and general	38,270
Fundraising	8,685
Total supporting services	46,955
Total expenses	545,498
Change in net assets	15,763
Unrestricted net assets, beginning of year	57,686
Unrestricted net assets, end of year	$ 73,449

See accompanying notes.

MATTHEW 25, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2013

	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	$ 26,890	$ 65,646	$ 225,072	$ 317,608	$ 22,431	$ 6,205	$ 28,636	$ 346,244
Rent	34,558	7,096	24,330	65,984	2,365	-	2,365	68,349
Food and supplies	-	7,820	31,248	39,068	-	-	-	39,068
Professional fees	-	3,469	11,892	15,361	1,276	-	1,276	16,637
Insurance	-	3,278	11,240	14,518	1,093	-	1,093	15,611
Maintenance and repairs	-	2,801	10,199	13,000	585	-	585	13,585
Utilities	-	2,236	7,581	9,817	724	-	724	10,541
Program expenses	8,202	87	131	8,420	-	-	-	8,420
Miscellaneous	66	437	92	595	6,429	-	6,429	7,024
Office supplies	-	1,249	3,911	5,160	646	74	720	5,880
Transportation	-	758	2,689	3,447	802	-	802	4,249
Depreciation	-	1,011	1,132	2,143	265	-	265	2,408
Special events	-	-	-	-	-	2,406	2,406	2,406
Contract labor	-	699	857	1,556	805	-	805	2,361
Drug testing	-	370	1,479	1,849	-	-	-	1,849
Postage	10	-	7	17	588	-	588	605
Education/Training	-	-	-	-	261	-	261	261
Total	$ 69,726	$ 96,957	$ 331,860	$ 498,543	$ 38,270	$ 8,685	$ 46,955	$ 545,498

See accompanying notes.

MATTHEW 25, INCORPORATED
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013

Cash flows from operating activities:		
Change in net assets:	$	15,763
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation		2,408
Gain on investments		(1,493)
Changes in operating assets and liabilities:		
Grant receivable		(666)
Prepaid expenses		(3,505)
Accounts payable		(32,984)
Accrued expenses		(1,082)
Resident deposits		2,856
Net cash used in operating activities		(18,703)
Cash flows from investing activities:		
Purchases of investments		(10,603)
Proceeds from sale of investments		60,607
Purchase of property and equipment		(9,407)
Net cash provided by investing activities		40,597
Net increase in cash and cash equivalents		21,894
Cash and cash equivalents at beginning of year		38,726
Cash and cash equivalents at end of year	$	60,620

See accompanying notes.

MATTHEW 25, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Matthew 25, Incorporated ("the Organization") was incorporated in Tennessee on February 11, 1986, as a nonprofit 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, 2013.

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, 2013.

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, 2013.

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

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, 2010 through June 30, 2013.

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 18, 2013, 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, 2013:

Cash and cash equivalents	$ 10,110

The following schedule summarizes the investment income in the statement of activities for the year ended June 30, 2013:

Interest and dividend income (including interest on cash and cash equivalents)	$ 556
Net unrealized and realized gain on investments	1,493
	$ 2,049

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2013 consists of the following:

Equipment	$ 41,397
Furniture	15,821
Leasehold improvements	2,624
	59,842
Less accumulated depreciation	(48,593)
Net property and equipment	$ 11,249

NOTE 4 – RESTRICTED CASH

Cash of $19,183 as of June 30, 2013 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.

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 2013. Subsequent to June 30, 2013, 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 the 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 $68,349 for the year ended June 30, 2013. Revenue received from residents under subleases totaled $41,010 for the year ended June 30, 2013.

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.