

MATTHEW 25, INCORPORATED

FINANCIAL STATEMENTS

JUNE 30, 2008

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To the Board of Directors of
Matthew 25, Incorporated
Nashville, Tennessee

Independent Auditor's Report

We have audited the accompanying statement of financial position of Matthew 25, Incorporated, (a nonprofit organization) as of June 30, 2008, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 the 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.

As discussed in Note B to the financial statements, Matthew 25, Incorporated changed the basis of accounting from the modified cash basis of accounting to the accrual basis of accounting for the year ended June 30, 2008.

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, 2008, and the changes 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.

In accordance with Government Auditing Standards, we have also issued our report dated January 14, 2009 on our consideration of Matthew 25, Incorporated's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

January 14, 2009

The Baker Group, P.C.

MATTHEW 25, INCORPORATED
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008

ASSETS

Cash	\$ 79,832
Cash advances	1,095
Grant receivable	20,567
Prepaid kitchen supplies	670
Investments	142,416
Equipment	<u>4,300</u>
 Total Assets	 \$ <u>248,880</u>

LIABILITIES

Accounts Payable	\$ 1,564
Withheld payroll deductions	1,272
Resident deposits	<u>36,133</u>
 Total Liabilities	 <u>38,969</u>

NET ASSETS

Unrestricted	203,131
Temporarily Restricted	6,780
Permanently Restricted	<u>-</u>
 Total Net Assets	 <u>209,911</u>

Total Liabilities and Net Assets	\$ <u>248,880</u>
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The accompanying notes are an integral part of these statements.

MATTHEW 25, INCORPORATED

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

UNRESTRICTED NET ASSETS

Support

Contributions	\$	152,021
Federal financial assistance		221,246
Program service fees		123,356
Investment income		2,998
Other income		<u>9,389</u>
Total Unrestricted Revenues		<u>509,010</u>

Expenses

Program Services		
Day Care Food		301,387
Food Stamp Outreach		126,571
Supporting Services		
Management and General		60,035
Fund Raising		<u>24,122</u>
Total Expenses		<u>512,115</u>

Increase in Unrestricted Net Assets Due to Change in Accounting Basis 10,563

Increase (Decrease) in Unrestricted Net Assets 7,458

TEMPORARILY RESTRICTED NET ASSETS

Total Temporarily Restricted Revenues -

Total Expenses -

Increase (Decrease) in Temporarily Restricted Net Assets -

Increase (Decrease) in Net Assets 7,458

Net Assets at Beginning of Year 202,453

Net Assets at End of Year \$ 209,911

The accompanying notes are an integral part of these statements.

MATTHEW 25, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	PROGRAM SERVICES		SUPPORT SERVICES		
	Emergency Shelter and Food	Vocational Training and Placement	Management and General	Fund Raising	Total
Payroll and related expenses	\$ 151,210	\$ 114,288	\$ 36,278	\$ 19,262	\$ 321,038
Rent	86,989	1,690	2,638	-	91,317
Food and supplies	38,338	-	-	-	38,338
Insurance	6,164	4,659	1,479	785	13,087
Depreciation	1,700	-	3,343	-	5,043
Office Supplies	1,198	1,198	1,997	3,594	7,987
Maintenance and repairs	10,217	601	1,202	-	12,020
Professional fees	-	-	9,480	-	9,480
Telephone	1,706	1,706	2,275	-	5,687
Automotive expenses	1,020	1,020	510	-	2,550
Drug testing	2,811	-	-	-	2,811
Job training	-	1,375	-	-	1,375
Postage	34	34	137	481	686
Miscellaneous	-	-	696	-	696
Total	\$ 301,387	\$ 126,571	\$ 60,035	\$ 24,122	\$ 512,115

The accompanying notes are integral part of these statements.

MATTHEW 25, INCORPORATED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets	\$	7,458
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		5,043
(Increase) Decrease in Operating Assets		
Cash advances		(15)
Grant receivable		(20,567)
Prepaid kitchen supplies		111
Investments		(1,465)
Equipment		(459)
Increase (Decrease) in Operating Liabilities		
Accounts payable		1,564
Withheld payroll deductions		603
Resident deposits		<u>(8,639)</u>
Net Cash provided (used) by Operating Activities		<u>(16,366)</u>
Increase (Decrease) of Cash		(16,366)
Beginning Cash Balance		<u>96,198</u>
Ending Cash Balance	\$	<u><u>79,832</u></u>

The accompanying notes are an integral part of these statements.

MATTHEW 25, INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE A - NATURE OF ACTIVITIES AND 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.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, restricted net assets are reclassified to unrestricted net assets.

Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

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.

Financial Statement Presentation

The Organization has adopted (FAS-117) "Financial Statements of Not-for-Profit Organizations." Under FAS-117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the organization is required to present a statement of cash flows.

MATTHEW 25, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS - continued

JUNE 30, 2008

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES – (continued)

Income Tax

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).

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

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 activities.

MATTHEW 25, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS - continued

JUNE 30, 2008

NOTE B – CHANGE IN ACCOUNTING BASIS

In the past, the Organization's financial statements have been presented on the modified cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. For the current year, the Organization adopted the accrual basis of accounting. Under the accrual basis of accounting support and revenue are recognized when earned and expenses are recognized when the obligation is incurred. The net cumulative effect from the change was \$10,563.

NOTE C – RESTRICTED CASH

Cash of \$36,133 as of June 30, 2008, is held by the Organization as trustee under a savings plan for the benefit of the residents. Additionally, at June 30, 2008, cash of \$6,780 is restricted by donors for the procurement of educational programs and transportation costs.

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Equipment	\$29,298
Furniture and Fixtures	15,821
Vehicles	8,648
Leasehold improvements	<u>2,624</u>
	56,391
Accumulated depreciation	<u>(52,091)</u>
Total	<u>\$ 4,300</u>

The State of Tennessee has a reversionary interest in equipment purchased with grant proceeds which had no book value at June 30, 2008.

NOTE E – 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.

MATTHEW 25, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS - continued

JUNE 30, 2008

NOTE F – 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. Additionally, the organization leases other housing used in its progressive housing program which are 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 lease will be renewed or replaced by other leases.

NOTE G – OPERATING LEASES

Total rent expense for all operating leases is \$91,317 for the year ended June 30, 2008. Revenue received from residents under subleases totaled \$103,131 for the year ended June 30, 2008.

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2008</u>
Education	\$3,105
Transportation costs	<u>3,675</u>
	<u>\$6,780</u>

NOTE I – 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.

Litigation

The Organization is involved in employment related legal actions. Management believes that the legal actions are covered by sufficient insurance or adequate defenses, and accordingly, will not have material adverse financial effect on the organization.

Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

Matthew 25, Incorporated.
Nashville, Tennessee

We have audited the financial statements of Matthew 25, Incorporated (a nonprofit organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated January 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Matthew 25, Incorporated's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Matthew 25, Incorporated's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.