MATTHEW 25, INCORPORATED

FINANCIAL STATEMENTS

June 30, 2015

MATTHEW 25, INCORPORATED

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FRASIERDEAN
HOWARD CPAs

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, 2015, 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.

Frasier, Dean & Howard, PLLC • 3310 West End Avenue, Suite 550 • Nashville, Tennessee 37203-1089 • 615.383.6592 • *fax* 615.383.7094 • www.fdhcpa.com

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, 2015, 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

Nashville, Tennessee
October 27, 2015

MATTHEW 25, INCORPORATED
STATEMENT OF FINANCIAL POSITION
June 30, 2015

Assets

Cash and cash equivalents, including amounts held for residents of $27,668	$	81,449
Grant receivable		43,701
Prepaid expenses		2,025
Property and equipment, net		29,132
Total assets	$	156,307

Liabilities and Net Assets

Liabilities:		
Accounts payable	$	16,156
Accrued expenses		5,553
Resident deposits		27,668
Total liabilities		49,377
Net assets:		
Unrestricted		106,930
Total net assets		106,930
Total liabilities and net assets	$	156,307

See accompanying notes.

MATTHEW 25, INCORPORATED
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and other support:			
Federal and state financial assistance	$ 366,701	$ -	$ 366,701
Contributions	119,844	-	119,844
Program service fees	101,775	-	101,775
Other income	2,665		2,665
Net assets released from restrictions	19,857	(19,857)	-
Total revenue and other support	610,842	(19,857)	590,985
Expenses:			
Program services:			
HUD progressive housing	56,027	-	56,027
Transitional programs	129,569	-	129,569
Veteran Affairs programs	333,442	-	333,442
Three-quarter way housing	33,023	-	33,023
Total program services	552,061	-	552,061
Supporting services:			
Management and general	72,898	-	72,898
Fundraising	9,106	-	9,106
Total supporting services	82,004	-	82,004
Total expenses	634,065	-	634,065
Change in net assets	(23,223)	(19,857)	(43,080)
Net assets, beginning of year	130,153	19,857	150,010
Net assets, end of year	$ 106,930	$ -	$ 106,930

See accompanying notes.

MATTHEW 25, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015

	Program Services					Supporting Services			
	HUD Progressive Housing	Transitional Programs	Veteran Affairs Programs	Three-Quarter Way Housing	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Payroll and related expenses	$ 27,016	$ 77,568	$ 256,417	$ -	$ 361,001	$ 24,322	$ 7,234	$ 31,556	$ 392,557
Rent	20,748	8,448	8,448	21,696	59,340	16,896	-	16,896	76,236
Food and supplies	-	25,222	26,677	-	51,899	32	-	32	51,931
Professional fees	-	1,868	5,758	-	7,626	12,344	-	12,344	19,970
Insurance	-	3,701	6,753	-	10,454	7,783	-	7,783	18,237
Maintenance and repairs	50	3,254	10,514	965	14,783	1,313	-	1,313	16,096
Utilities	-	1,574	4,884	4,804	11,262	379	-	379	11,641
Furniture and equipment	-	2,140	2,064	5,324	9,528	79	-	79	9,607
Program expenses	8,200	646	84	234	9,164	-	-	-	9,164
Office supplies	13	1,088	3,370	-	4,471	4,002	-	4,002	8,473
Transportation	-	1,924	3,532	-	5,456	67	-	67	5,523
Depreciation	-	1,024	3,327	-	4,351	768	-	768	5,119
Miscellaneous	-	698	156	-	854	2,151	-	2,151	3,005
Website	-	3	10	-	13	2,437	-	2,437	2,450
Special events	-	-	-	-	-	-	1,872	1,872	1,872
Drug testing	-	411	1,448	-	1,859	-	-	-	1,859
Postage	-	-	-	-	-	325	-	325	325
Total	$ 56,027	$ 129,569	$ 333,442	$ 33,023	$ 552,061	$ 72,898	$ 9,106	$ 82,004	$ 634,065

See accompanying notes.

MATTHEW 25, INCORPORATED
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

Cash flows from operating activities:	
Change in net assets:	$ (43,080)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	5,119
Contributions released from long-term restriction	19,857
Changes in operating assets and liabilities:	
Grant receivable	(20,102)
Prepaid expenses	(810)
Accounts payable	1,162
Accrued expenses	(1,817)
Resident deposits	5,830
Net cash used by operating activities	(33,841)
Cash flows from investing activities:	
Purchase of property and equipment	(1,009)
Net cash used in investing activities	(1,009)
Cash flows from financing activities:	
Expended contributions restricted for long-term purpose	(19,857)
Net cash used by financing activities	(19,857)
Net decrease in cash and cash equivalents	(54,707)
Cash and cash equivalents at beginning of year	136,156
Cash and cash equivalents at end of year	$ 81,449

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 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, 2015.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations 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, 2015.

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, 2015.

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 Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidance that clarifies 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, 2012 through June 30, 2015.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Materials, Services, and Assets

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

Subsequent Events

The Organization evaluated subsequent events through October 27, 2015, 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 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2015 consists of the following:

Equipment	$ 43,317
Furniture	15,821
Leasehold improvements	26,243
	85,381
Less accumulated depreciation	(56,249)
Net property and equipment	$ 29,132

NOTE 3 – RESTRICTED CASH

Cash of $27,668 as of June 30, 2015 is held by the Organization as trustee under a savings plan for the benefit of the residents.

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.

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 2015. Subsequent to June 30, 2015, the lease was renewed for one year under the same terms.

Beginning in March 2014, the Organization signed a lease with a governmental entity for additional space at the Vine Hill location to provide affordable housing. The lease is on a year-to-year basis, and is classified as an operating lease. The annual rent includes utilities and certain maintenance. The lease requires monthly payments of $1,808 through February 2016. The Organization, in turn, has short-term subleases with residents who are searching for affordable housing.

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 $76,236 for the year ended June 30, 2015. Revenue received from residents under subleases totaled $89,785 for the year ended June 30, 2015.

NOTE 6 – CONCENTRATIONS

The Organization receives a substantial amount of its support from governmental agencies, with approximately 85% of federal and state financial assistance received from the U.S. Department of Veteran’s Affairs. 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.