

MATTHEW 25, INCORPORATED

FINANCIAL STATEMENTS

***As of and for the Years Ended June 30, 2017
and 2016***

And Report of Independent Auditor

MATTHEW 25, INCORPORATED
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Report of Independent Auditor

Board of Directors
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, 2017, 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.

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, 2017, 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.

Prior Period Financial Statements

The financial statements as of June 30, 2016 were audited by other auditors whose report dated December 7, 2016 expressed an unmodified opinion on those statements.



Nashville, Tennessee
May 14, 2018

MATTHEW 25, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents, including amounts held for residents of \$41,149 and \$39,549, respectively	\$ 113,132	\$ 80,357
Grants receivable	42,111	35,066
Contribution and other receivables	-	20,535
Prepaid expenses	625	1,050
Property and equipment, net	35,012	24,062
Total Assets	\$ 190,880	\$ 161,070
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 1,381	\$ 3,852
Accrued expenses	6,698	3,298
Resident deposits	41,149	39,549
Total Liabilities	49,228	46,699
Net assets:		
Unrestricted	137,652	72,702
Temporarily restricted	4,000	41,669
Total Net Assets	141,652	114,371
Total Liabilities and Net Assets	\$ 190,880	\$ 161,070

MATTHEW 25, INCORPORATED
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support:			
Federal and state financial assistance	\$ 387,633	\$ -	\$ 387,633
Contributions	141,464	4,000	145,464
Program service fees	112,204	-	112,204
Other income	1,770	-	1,770
Released from restrictions	41,669	(41,669)	-
Total Revenue and Other Support	684,740	(37,669)	647,071
Expenses:			
Program services:			
HUD progressive housing	45,005	-	45,005
Transitional programs	95,094	-	95,094
Veteran Affairs programs	342,795	-	342,795
Three-quarter way housing	54,859	-	54,859
Total Program Services	537,753	-	537,753
Supporting services:			
Management and general	71,241	-	71,241
Fundraising	10,796	-	10,796
Total Supporting Services	82,037	-	82,037
Total Expenses	619,790	-	619,790
Change in net assets	64,950	(37,669)	27,281
Net assets, beginning of year	72,702	41,669	114,371
Net assets, end of year	\$ 137,652	\$ 4,000	\$ 141,652

MATTHEW 25, INCORPORATED
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support:			
Federal and state financial assistance	\$ 360,135	\$ -	\$ 360,135
Contributions	92,357	41,669	134,026
Program service fees	117,707	-	117,707
Other income	2,007	-	2,007
Total Revenue and Other Support	<u>572,206</u>	<u>41,669</u>	<u>613,875</u>
Expenses:			
Program services:			
HUD progressive housing	59,863	-	59,863
Transitional programs	96,370	-	96,370
Veteran Affairs programs	312,759	-	312,759
Three-quarter way housing	56,130	-	56,130
Total Program Services	<u>525,122</u>	<u>-</u>	<u>525,122</u>
Supporting services:			
Management and general	74,595	-	74,595
Fundraising	6,717	-	6,717
Total Supporting Services	<u>81,312</u>	<u>-</u>	<u>81,312</u>
Total Expenses	<u>606,434</u>	<u>-</u>	<u>606,434</u>
Change in net assets	(34,228)	41,669	7,441
Net assets, beginning of year	106,930	-	106,930
Net assets, end of year	<u>\$ 72,702</u>	<u>\$ 41,669</u>	<u>\$ 114,371</u>

The accompanying notes to the financial statements are an integral part of these statements.

MATTHEW 25, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	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	\$ 27,225	\$ 68,229	\$ 243,029	\$ 21,232	\$ 359,715	\$ 43,002	\$ 9,850	\$ 52,852	\$ 412,567
Rent	16,825	5,070	23,657	21,696	67,248	5,069	-	5,069	72,317
Food and supplies	-	8,813	30,932	4,443	44,188	-	-	-	44,188
Professional fees	-	3,457	16,135	-	19,592	3,458	-	3,458	23,050
Utilities	-	1,590	5,851	7,445	14,886	1,313	-	1,313	16,199
Insurance	-	2,186	10,247	-	12,433	2,205	-	2,205	14,638
Contract labor	-	-	-	-	-	5,652	-	5,652	5,652
Office supplies	-	939	2,892	-	3,831	1,804	-	1,804	5,635
Maintenance and repairs	-	1,110	3,622	-	4,732	572	-	572	5,304
IT Support	-	-	-	-	-	4,063	-	4,063	4,063
Depreciation	-	671	2,180	-	2,851	504	-	504	3,355
Miscellaneous	5	-	407	10	422	2,526	-	2,526	2,948
Drug testing	-	832	1,310	-	2,142	-	-	-	2,142
Furniture and equipment	-	900	1,104	-	2,004	-	-	-	2,004
Transportation	-	481	1,363	33	1,877	-	-	-	1,877
Program expenses	950	816	-	-	1,766	-	-	-	1,766
Fundraising	-	-	-	-	-	-	805	805	805
Postage	-	-	66	-	66	264	141	405	471
In-kind	-	-	-	-	-	430	-	430	430
Website	-	-	-	-	-	379	-	379	379
Total	\$ 45,005	\$ 95,094	\$ 342,795	\$ 54,859	\$ 537,753	\$ 71,241	\$ 10,796	\$ 82,037	\$ 619,790

The accompanying notes to the financial statements are an integral part of these statements.

MATTHEW 25, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	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	\$ 26,772	\$ 60,388	\$ 216,600	\$ 19,916	\$ 323,676	\$ 42,807	\$ 6,717	\$ 49,524	\$ 373,200
Rent	27,625	6,758	21,963	21,696	78,042	5,069	-	5,069	83,111
Food and supplies	-	12,784	34,895	2,495	50,174	115	-	115	50,289
Professional fees	-	1,730	5,622	-	7,352	13,782	-	13,782	21,134
Insurance	-	3,957	12,247	942	17,146	1,696	-	1,696	18,842
Maintenance and repairs	-	1,218	3,443	9,282	13,943	823	-	823	14,766
Utilities	-	2,940	5,049	234	8,223	672	-	672	8,895
Furniture and equipment	-	1,449	4,287	-	5,736	1,792	-	1,792	7,528
Program expenses	4,766	671	-	-	5,437	-	-	-	5,437
Office supplies	-	1,000	3,300	-	4,300	770	-	770	5,070
Transportation	-	191	443	-	634	4,288	-	4,288	4,922
Depreciation	550	1,459	-	1,532	3,541	1,107	-	1,107	4,648
Miscellaneous	-	887	2,245	-	3,132	-	-	-	3,132
Website	-	829	2,020	-	2,849	37	-	37	2,886
Special events	150	109	645	33	937	956	-	956	1,893
Drug testing	-	-	-	-	-	515	-	515	515
Postage	-	-	-	-	-	166	-	166	166
Total	<u>\$ 59,863</u>	<u>\$ 96,370</u>	<u>\$ 312,759</u>	<u>\$ 56,130</u>	<u>\$ 525,122</u>	<u>\$ 74,595</u>	<u>\$ 6,717</u>	<u>\$ 81,312</u>	<u>\$ 606,434</u>

The accompanying notes to the financial statements are an integral part of these statements.

MATTHEW 25, INCORPORATED
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets:	\$ 27,281	\$ 7,441
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,355	5,070
Contributions restricted for long-term purpose	(4,000)	(11,334)
Changes in operating assets and liabilities:		
Grants receivable	(7,045)	8,635
Contribution and other receivables	20,535	(20,535)
Prepaid expenses	425	975
Accounts payable	(2,471)	(12,304)
Accrued expenses	3,400	(2,255)
Resident deposits	1,600	11,881
Net cash provided by (used in) operating activities	<u>43,080</u>	<u>(12,426)</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(14,305)</u>	<u>-</u>
Net cash used in investing activities	<u>(14,305)</u>	<u>-</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term purpose	<u>4,000</u>	<u>11,334</u>
Net cash provided by financing activities	<u>4,000</u>	<u>11,334</u>
Net increase (decrease) in cash and cash equivalents	32,775	(1,092)
Cash and cash equivalents, beginning of year	<u>80,357</u>	<u>81,449</u>
Cash and cash equivalents, end of year	<u>\$ 113,132</u>	<u>\$ 80,357</u>

MATTHEW 25, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 1—Organization and 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 (“GAAP”). 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.

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, 2017 and 2016.

Use of Estimates – The preparation of financial statements in conformity with GAAP 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.

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, 2017 and 2016.

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.

MATTHEW 25, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 1—Organization and summary of significant accounting policies (continued)

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 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. The Organization had no uncertain tax positions at June 30, 2017 or 2016. Tax years that remain open for examination include the years ended June 30, 2014 through June 30, 2017.

Allocation of Functional Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program and supporting services based on estimates made by management.

Donated Services, Materials, and Assets – Donated services, materials, 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 May 14, 2018, when these financial statements were available to be issued. Management is not aware of any significant events other than as described in Note 11 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—Grants receivable

A summary of grants receivable is as follows as of June 30:

	2017	2016
Veteran Affairs	\$ 28,443	\$ 25,459
State Parole	10,944	7,068
Housing and Urban Development	2,724	2,539
	<u>\$ 42,111</u>	<u>\$ 35,066</u>

Note 3—Contribution and other receivables

Contribution and other receivables totaling \$20,535 at June 30, 2016 are considered fully collectible and no allowance for doubtful accounts has been provided. The Organization has no contributions or other receivables at June 30, 2017.

MATTHEW 25, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 4—Property and equipment

Property and equipment consists of the following at June 30:

	2017	2016
Equipment	\$ 43,317	\$ 43,317
Furniture	15,821	15,821
Leasehold improvements	40,548	26,243
	99,686	85,381
Less accumulated depreciation	(64,674)	(61,319)
Net property and equipment	\$ 35,012	\$ 24,062

Note 5—Restricted cash

Cash of \$41,149 and \$39,549 as of June 30, 2017 and 2016, respectively, is held by the Organization (as trustee) under a savings plan for the benefit of the residents.

Note 6—Temporarily restricted net assets

Temporarily restricted net assets are restricted for the following purposes at June 30:

	2017	2016
Time restriction	\$ -	\$ 19,035
VA renovations	4,000	11,334
Technology	-	6,300
Apartment coordinator	-	5,000
	\$ 4,000	\$ 41,669

Note 7—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 because the criteria for recognition under accounting standards is not met.

Note 8—Line of credit

On November 22, 2016, the Organization entered into a revolving loan agreement with a financial institution. The note evidencing the agreement is secured by the assets of the Organization. Interest is payable monthly and is variable. The interest rate at June 30, 2017 was 4.75%. The Company may borrow up to \$25,000 under this agreement. As of June 30, 2017, there were no outstanding borrowings under this agreement. This revolving line of credit has a maturity date of November 22, 2018.

MATTHEW 25, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 9—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 2017. Subsequent to June 30, 2017, 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 and renews automatically annually unless terminated by either party with a 30 day notice. 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 \$72,317 and \$83,111 for the years ended June 30, 2017 and 2016, respectively. Revenue received from residents under subleases totaled \$101,347 and \$107,542 for the years ended June 30, 2017 and 2016, respectively, and is included in program service fees revenue.

Note 10—Concentrations

The Organization receives a substantial amount of its support from governmental agencies, with approximately 87% and 85% for the years ended June 30, 2017 and 2016, respectively, 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.

Note 11—Subsequent events

Subsequent to June 30, 2017, the Organization became a defendant in certain litigation initiated by an employee related to alleged misconduct by the Organization's executive director. The litigation is in its early stages, and presently, the ultimate outcome of the litigation and its effect on the Organization cannot be determined.