

**MATTHEW 25, INCORPORATED**

**FINANCIAL STATEMENTS**

**JUNE 30, 2009**

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## THE BAKER GROUP, CPAs, P.C.

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, 2009, 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.

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, 2009, 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 19, 2010 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 19, 2010

*The Baker Group, CPAs, P.C.*

**MATTHEW 25, INCORPORATED**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2009**

<b>ASSETS</b>	
Cash	\$ 100,261
Cash advances	1,561
Grant receivable	18,409
Prepaid kitchen supplies	700
Investments	105,804
Equipment	<u>5,160</u>
 Total Assets	 \$ <u>231,895</u>
 <b>LIABILITIES</b>	
Accounts Payable	\$ 1,095
Withheld payroll deductions	125
Resident deposits	<u>30,102</u>
 Total Liabilities	 <u>31,322</u>
 <b>NET ASSETS</b>	
Unrestricted	193,793
Temporarily Restricted	6,780
Permanently Restricted	<u>-</u>
 Total Net Assets	 <u>200,573</u>
 Total Liabilities and Net Assets	 \$ <u>231,895</u>

The accompanying notes are an integral part of these statements.

**MATTHEW 25, INCORPORATED**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2009**

**UNRESTRICTED NET ASSETS**

Support

Contributions	\$ 167,468
Federal financial assistance	259,686
Program service fees	94,058
Investment income	3,566
Other income	<u>4,042</u>
Total Unrestricted Revenues	<u>528,820</u>

Expenses

Program Services	
Emergency Shelter and Food	327,406
Vocational Training and Placement	124,471
Supporting Services	
Management and General	62,750
Fund Raising	<u>23,531</u>
Total Expenses	<u>538,158</u>

Increase (Decrease) in Unrestricted Net Assets	<u>(9,338)</u>
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**TEMPORARILY RESTRICTED NET ASSETS**

Total Temporarily Restricted Revenues	-
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Total Expenses	<u>-</u>
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Increase (Decrease) in Temporarily Restricted Net Assets	<u>-</u>
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Increase (Decrease) in Net Assets	(9,338)
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Net Assets at Beginning of Year	<u>209,911</u>
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Net Assets at End of Year	<u>\$ 200,573</u>
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The accompanying notes are an integral part of these statements.

**MATTHEW 25, INCORPORATED**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<b>PROGRAM SERVICES</b>		<b>SUPPORT SERVICES</b>		
	<b>Emergency Shelter and Food</b>	<b>Vocational Training and Placement</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total</b>
Payroll and related expenses	\$ 145,575	\$ 108,667	\$ 38,071	\$ 18,501	\$ 310,814
Rent	79,429	1,690	2,638	-	83,757
Food and supplies	28,517	-	-	-	28,517
Food and supplies - donated	33,500				33,500
HUD Expenses	17,969				17,969
Insurance	6,506	4,918	1,561	829	13,814
Depreciation	1,475	-	1,550	-	3,025
Office Supplies	1,169	1,169	1,948	3,506	7,792
Maintenance and repairs	7,142	420	840	-	8,402
Professional fees	-	-	10,065	-	10,065
Telephone	2,671	2,671	3,562	-	8,904
Automotive expenses	1,317	1,317	659	-	3,293
Drug testing	2,099	-	-	-	2,099
Job training	-	3,582	-	-	3,582
Postage	37	37	149	520	743
Micellaneous	-	-	1,707	175	1,882
<b>Total</b>	<b>\$ 327,406</b>	<b>\$ 124,471</b>	<b>\$ 62,750</b>	<b>\$ 23,531</b>	<b>\$ 538,158</b>

The accompanying notes are integral part of these statements.

**MATTHEW 25, INCORPORATED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Increase (Decrease) in Net Assets	\$ (9,338)
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,025
 (Increase) Decrease in Operating Assets	
Cash advances	(466)
Grant receivable	2,158
Prepaid kitchen supplies	(30)
Investments	36,612
Equipment	(3,885)
 Increase (Decrease) in Operating Liabilities	
Accounts payable	(469)
Withheld payroll deductions	(1,147)
Resident deposits	<u>(6,031)</u>
 Net Cash provided (used) by Operating Activities	<u>20,429</u>
 Increase (Decrease) of Cash	20,429
Beginning Cash Balance	<u>79,832</u>
 Ending Cash Balance	\$ <u>100,261</u>

The accompanying notes are an integral part of these statements.

**MATTHEW 25, INCORPORATED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**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 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, 2009**

#### **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, 2009

#### NOTE B – RESTRICTED CASH

Cash of \$30,102 as of June 30, 2009, is held by the Organization as trustee under a savings plan for the benefit of the residents. Additionally, at June 30, 2009, cash of \$6,780 is restricted by donors for the procurement of educational programs and transportation costs.

#### NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Equipment	\$33,183
Furniture and Fixtures	15,821
Vehicles	8,648
Leasehold improvements	<u>2,624</u>
	60,276
Accumulated depreciation	<u>(55,116)</u>
Net	<u>\$ 5,160</u>

The State of Tennessee has a reversionary interest in equipment purchased with grant proceeds which had no book value at June 30, 2009.

#### NOTE D – CONTRIBUTED 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.

During the current year, several restaurants donated food and kitchen supplies to the Organization. These items were used in providing food to homeless individuals. The estimated fair value of the contributions were \$33,500 and are included in these financial statements.

#### NOTE E – 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.

# MATTHEW 25, INCORPORATED

## NOTES TO THE FINANCIAL STATEMENTS - continued

JUNE 30, 2009

### NOTE E – DESCRIPTION OF LEASING ARRANGEMENTS (Continued)

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 F – OPERATING LEASES

Total rent expense for all operating leases is \$83,757 for the year ended June 30, 2009. Revenue received from residents under subleases totaled \$72,854 for the year ended June 30, 2009.

### NOTE G – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>
Education	\$3,105
Transportation costs	<u>3,675</u>
	<u>\$6,780</u>

### NOTE H – 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.

**MATTHEW 25, INCORPORATED**

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**JUNE 30, 2009**

**NOTE I – INVESTMENTS**

Investments as of June 30, 2009 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Unrestricted			
Fixed Income Mutual Funds	\$102,158	\$100,731	\$100,731
Money Market Funds	<u>5,073</u>	<u>5,073</u>	<u>5,073</u>
Total	<u>\$107,231</u>	<u>\$105,804</u>	<u>\$105,804</u>

**NOTE J – FAIR VALUE MEASUREMENTS**

Fair values of assets measured at June 30, 2009 are as follows:

**Fair Value Measurement at June 30, 2009  
Data Using**

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Investments	<u>\$105,804</u>	<u>\$105,804</u>

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.



## THE BAKER GROUP, CPAs, P.C.

### 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, 2009, and have issued our report thereon dated January 19, 2010. 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.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Matthew 25, Incorporated's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of Matthew 25, Incorporated's management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 19, 2010

*The Baker Group, CPAs, P.C.*