

MATTHEW 25, INCORPORATED

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2019 and 2018

And Report of Independent Auditor

MATTHEW 25, INCORPORATED
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Report of Independent Auditor

To the 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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Financial Statement Presentation

As discussed in Note 1, Matthew 25, Incorporated adopted Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The ASU has been applied retrospectively to all years presented in the financial statements. Our opinion is not modified with respect to this matter.

A handwritten signature in blue ink that reads "Chung Bekaert LLP". The signature is written in a cursive, flowing style.

Nashville, Tennessee
December 13, 2019

MATTHEW 25, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents, including amounts held for residents of \$30,078 and \$25,590, respectively	\$ 110,405	\$ 141,212
Grants receivable	29,664	39,406
Prepaid expenses	-	301
Property and equipment, net	94,517	32,809
Total Assets	\$ 234,586	\$ 213,728
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 13,778	\$ 12,175
Accrued expenses	8,706	8,062
Resident deposits	30,078	25,590
Total Liabilities	52,562	45,827
Net Assets:		
Without donor restrictions	178,206	167,901
With donor restrictions	3,818	-
Total Net Assets	182,024	167,901
Total Liabilities and Net Assets	\$ 234,586	\$ 213,728

MATTHEW 25, INCORPORATED
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support:			
Federal and state financial assistance	\$ 372,580	\$ -	\$ 372,580
Contributions	99,065	65,784	164,849
Program service fees	115,304	-	115,304
Other income	8,218	-	8,218
Released from restrictions	61,966	(61,966)	-
Total Revenue and Other Support	<u>657,133</u>	<u>3,818</u>	<u>660,951</u>
Expenses:			
Program Services:			
HUD progressive housing	536	-	536
Transitional programs	101,987	-	101,987
Veteran Affairs programs	368,678	-	368,678
Three-quarter way housing	48,993	-	48,993
Total Program Services	<u>520,194</u>	<u>-</u>	<u>520,194</u>
Supporting Services:			
Management and general	114,127	-	114,127
Fundraising	12,507	-	12,507
Total Supporting Services	<u>126,634</u>	<u>-</u>	<u>126,634</u>
Total Expenses	<u>646,828</u>	<u>-</u>	<u>646,828</u>
Change in net assets	10,305	3,818	14,123
Net assets, beginning of year	<u>167,901</u>	<u>-</u>	<u>167,901</u>
Net assets, end of year	<u>\$ 178,206</u>	<u>\$ 3,818</u>	<u>\$ 182,024</u>

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

MATTHEW 25, INCORPORATED
STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support:			
Federal and state financial assistance	\$ 391,870	\$ -	\$ 391,870
Contributions	118,730	-	118,730
Program service fees	127,612	-	127,612
Other income	3,269	-	3,269
Released from restrictions	4,000	(4,000)	-
Total Revenue and Other Support	<u>645,481</u>	<u>(4,000)</u>	<u>641,481</u>
Expenses:			
Program services:			
HUD progressive housing	22,128	-	22,128
Transitional programs	101,020	-	101,020
Veteran Affairs programs	349,011	-	349,011
Three-quarter way housing	56,811	-	56,811
Total Program Services	<u>528,970</u>	<u>-</u>	<u>528,970</u>
Supporting services:			
Management and general	73,667	-	73,667
Fundraising	12,595	-	12,595
Total Supporting Services	<u>86,262</u>	<u>-</u>	<u>86,262</u>
Total Expenses	<u>615,232</u>	<u>-</u>	<u>615,232</u>
Change in net assets	30,249	(4,000)	26,249
Net assets, beginning of year	<u>137,652</u>	<u>4,000</u>	<u>141,652</u>
Net assets, end of year	<u>\$ 167,901</u>	<u>\$ -</u>	<u>\$ 167,901</u>

MATTHEW 25, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program Services					Supporting Services			Total Expenses
	HUD Progressive Housing	Transitional Programs	Veteran Affairs Programs	Three- Quarter Way Housing	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Payroll and related expenses	\$ 536	\$ 68,237	\$ 260,906	\$ 16,056	\$ 345,735	\$ 67,414	\$ 12,042	\$ 79,456	\$ 425,191
Rent	-	6,758	21,965	24,381	53,104	5,069	-	5,069	58,173
Food and supplies	-	7,670	26,847	3,835	38,352	-	-	-	38,352
Insurance	-	6,768	21,996	-	28,764	5,078	-	5,078	33,842
Professional fees	-	2,857	9,286	-	12,143	17,510	-	17,510	29,653
Depreciation	-	2,589	9,777	-	12,366	1,942	-	1,942	14,308
Utilities	-	996	3,238	4,356	8,590	1,687	-	1,687	10,277
Office supplies	-	1,355	4,526	-	5,881	2,847	-	2,847	8,728
Maintenance and repairs	-	1,733	4,111	173	6,017	1,189	-	1,189	7,206
Dues and memberships	-	-	-	-	-	5,802	-	5,802	5,802
Drug testing	-	689	2,756	-	3,445	-	-	-	3,445
Marketing	-	-	-	-	-	3,208	-	3,208	3,208
Transportation	-	1,111	2,041	-	3,152	-	-	-	3,152
Miscellaneous	-	309	947	192	1,448	395	200	595	2,043
IT support	-	915	282	-	1,197	211	-	211	1,408
Bank fees	-	-	-	-	-	1,009	-	1,009	1,009
Website	-	-	-	-	-	605	-	605	605
Postage	-	-	-	-	-	161	265	426	426
Total Expenses	<u>\$ 536</u>	<u>\$ 101,987</u>	<u>\$ 368,678</u>	<u>\$ 48,993</u>	<u>\$ 520,194</u>	<u>\$ 114,127</u>	<u>\$ 12,507</u>	<u>\$ 126,634</u>	<u>\$ 646,828</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, 2018

	Program Services					Supporting Services			Total Expenses
	HUD Progressive Housing	Transitional Programs	Veteran Affairs Programs	Three- Quarter Way Housing	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Payroll and related expenses	\$ 8,875	\$ 69,285	\$ 263,121	\$ 16,836	\$ 358,117	\$ 44,041	\$ 11,419	\$ 55,460	\$ 413,577
Rent	3,936	6,758	21,965	22,074	54,733	5,069	-	5,069	59,802
Food and supplies	-	7,771	24,736	3,305	35,812	-	-	-	35,812
Professional fees	-	2,120	6,890	-	9,010	12,090	-	12,090	21,100
Insurance	-	3,581	11,638	-	15,219	2,686	-	2,686	17,905
Furniture and equipment	4,950	-	-	7,235	12,185	-	-	-	12,185
Utilities	-	1,123	3,650	4,910	9,683	842	-	842	10,525
Program expenses	4,312	1,615	1,125	2,069	9,121	-	-	-	9,121
Office supplies	-	930	3,107	-	4,037	1,961	-	1,961	5,998
Maintenance and repairs	-	1,427	3,344	111	4,882	1,012	-	1,012	5,894
Depreciation	-	991	3,219	-	4,210	743	-	743	4,953
Miscellaneous	-	1,035	2,394	21	3,450	1,262	174	1,436	4,886
IT Support	-	2,768	852	-	3,620	639	-	639	4,259
Drug testing	-	729	2,553	-	3,282	-	-	-	3,282
Contract labor	-	250	50	250	550	2,577	-	2,577	3,127
Transportation	-	637	367	-	1,004	-	-	-	1,004
Fundraising	-	-	-	-	-	-	757	757	757
Website	-	-	-	-	-	596	-	596	596
Postage	55	-	-	-	55	149	245	394	449
Total Expenses	<u>\$ 22,128</u>	<u>\$ 101,020</u>	<u>\$ 349,011</u>	<u>\$ 56,811</u>	<u>\$ 528,970</u>	<u>\$ 73,667</u>	<u>\$ 12,595</u>	<u>\$ 86,262</u>	<u>\$ 615,232</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, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets:	\$ 14,123	\$ 26,249
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14,308	4,953
Changes in operating assets and liabilities:		
Grants receivable	9,742	2,705
Prepaid expenses	301	324
Accounts payable	1,603	10,794
Accrued expenses	644	1,364
Resident deposits	4,488	(15,559)
Net cash provided by operating activities	<u>45,209</u>	<u>30,830</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(76,016)</u>	<u>(2,750)</u>
Net cash used in investing activities	<u>(76,016)</u>	<u>(2,750)</u>
Net (decrease) increase in cash and cash equivalents	(30,807)	28,080
Cash and cash equivalents, beginning of year	<u>141,212</u>	<u>113,132</u>
Cash and cash equivalents, end of year	<u><u>\$ 110,405</u></u>	<u><u>\$ 141,212</u></u>

MATTHEW 25, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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 (“U.S. 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:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions, and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and Board of Directors.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors or grantors. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of the Organization and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization had no net assets with donor restrictions perpetual in nature at June 30, 2019 and 2018.

Use of Estimates – The preparation of financial statements in conformity with U.S. 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 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, 2019 and 2018.

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, 2019 AND 2018

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

The Organization follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“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, 2019 and 2018.

Allocation of Functional Expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Salaries and related expenses are allocated to the various program and supporting services based on actual or estimated time employees spend on each function. The remaining expenses are specifically allocated based on the area served. The following program and supporting services are included in the accompanying financial statements:

Program Services – Includes housing and recovery services through counseling and financial education carried out to fulfill the Organization’s mission.

Supporting Services –

Management and General – Relates to the overall direction of the Organization. These expenses are not identifiable with a particular program or with fundraising, but are indispensable to the conduct of those activities and are essential to the Organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, information systems and technology, and other administrative activities.

Fundraising – Includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

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.

Change in Accounting Principle – In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are decreases in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, requires disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks and requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature. The Organization has adopted these new accounting requirements retrospectively to all periods presented in the financial statements.

MATTHEW 25, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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

Accounting Policies for Future Pronouncements – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Organization for the fiscal year ending June 30, 2020. The Organization is currently evaluating the effect of the implementation of this new standard.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This guidance introduces a lessee model that reports substantially all leases on the statements of financial position. This guidance is effective for the year ending June 30, 2022. The Organization is evaluating the impact this guidance may have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The guidance in this ASU clarifies the accounting guidance for contributions received and contributions made. The amendments in this ASU will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This guidance is effective for the year ending June 30, 2020. The Organization is evaluating the impact of this standard on its financial statements.

Subsequent Events – The Organization evaluated subsequent events through December 13, 2019, when these financial statements were available to be issued.

Note 2—Liquidity and availability

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of providing programs and services, as well as conduct of services undertaken to support those activities to be general expenditures.

As a part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, as discussed in Note 8, the Organization has access to a line of credit.

MATTHEW 25, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 2—Liquidity and availability (continued)

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following at June 30:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 110,405	\$ 141,212
Grants receivable	29,664	39,406
Total financial assets	140,069	180,618
Less amounts not available to be used for general expenditures within one year:		
Net assets subject to restrictions	3,818	-
Cash held for residents	30,078	25,590
Financial assets available to meet cash needed for general expenditures within one year:	\$ 106,173	\$ 155,028

Note 3—Grants receivable

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

	2019	2018
Veteran Affairs	\$ 24,916	\$ 26,505
State Parole	4,748	12,901
	\$ 29,664	\$ 39,406

Note 4—Property and equipment

Property and equipment consists of the following at June 30:

	2019	2018
Equipment	\$ 59,033	\$ 46,067
Furniture	40,545	15,821
Automobiles	38,326	-
Leasehold improvements	40,548	40,548
	178,452	102,436
Less accumulated depreciation	(83,935)	(69,627)
Net property and equipment	\$ 94,517	\$ 32,809

MATTHEW 25, INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 5—Restricted cash

Cash of \$30,078 and \$25,590 as of June 30, 2019 and 2018, respectively, is held by the Organization (as trustee) under a savings plan for the benefit of the residents.

Note 6—Net assets with donor restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30:

	2019	2018
Furniture renovations	\$ 3,818	\$ -

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, 2019, was 5.25%. The Organization may borrow up to \$25,000 under this agreement. As of June 30, 2019, there were no outstanding borrowings under this agreement. This revolving line of credit matures in December 2028.

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 2020. Subsequent to June 30, 2019, 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 \$1,918 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 \$58,173 and \$59,802 for the years ended June 30, 2019 and 2018, respectively. Revenue received from residents under subleases totaled \$104,959 and \$108,816 for the years ended June 30, 2019 and 2018, respectively, and is included in program service fees revenue.

MATTHEW 25, INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 10—Concentrations

The Organization receives a substantial amount of its support from governmental agencies, with approximately 90% and 85% for the years ended June 30, 2019 and 2018, 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.

Additionally, contributions from one donor approximated 10% of total revenue and other support for the year ended June 30, 2019.