Matthew 25 Ministries and Subsidiary

Consolidated Financial Statements
December 31, 2020, and
Independent Auditors' Report

MATTHEW 25 MINISTRIES AND SUBSIDIARY

December 31, 2020

Contents

BARNES DENNIG
Accounting • Tax • Business Insight

OHIO
CINCINNATI OFFICE
150 E. 4th Street
Cincinnati, OH 45202
Main: 513.241.8313
Fax: 513.241.8303

Independent Auditors' Report

To the Board of Trustees
Matthew 25 Ministries and Subsidiary
Cincinnati, Ohio

We have audited the accompanying consolidated financial statements of Matthew 25 Ministries (a nonprofit organization) and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Matthew 25 Ministries and Subsidiary as of December 31, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditors' Report
(Continued)

Correction of Error

As described in Note 12 to the financial statements, the beginning of year net assets were restated to recognize the accumulated postretirement benefit obligation as of December 31, 2019. Our opinion is not modified with respect to this matter.

Barnes, Dennig & Co., Ltd.

November 2, 2021
Cincinnati, Ohio

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Consolidated Statement of Financial Position
December 31, 2020

Assets	
Cash and cash equivalents	$ 5,302,671
Receivables and other assets	1,091,810
Inventory	104,306,686
Investments	6,294,322
Property and equipment, net	12,378,381
Total assets	$ 129,373,870
Liabilities and Net Assets	
Liabilities	
Line of credit	$ 1,626,263
Accounts payable	314,698
Accrued payroll and related	126,077
Other accrued liabilities	392,713
Accumulated postretirement benefit obligation	733,041
Notes payable	865,900
Total liabilities	4,058,692
Net Assets	
Without donor restrictions	124,421,884
With donor restrictions	893,294
Total net assets	125,315,178
Total liabilities and net assets	$ 129,373,870

See accompanying notes to consolidated financial statements

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Consolidated Statement of Activities
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Non-cash donations received	$ 293,168,458	$ -	$293,168,458
Contributions	7,908,376	3,794,330	11,702,706
Handling and shipping reimbursements	1,644,830	-	1,644,830
Special events	42,383	-	42,383
Other program income	303,698	-	303,698
Mission hotel revenue	7,584	-	7,584
Other income	39,372	-	39,372
Released from restrictions	3,457,493	(3,457,493)	-
Total revenue, gains and other support	306,572,194	336,837	306,909,031
Expenses			
Program services	269,323,597	-	269,323,597
General and administrative	1,027,289	-	1,027,289
Fundraising	640,091	-	640,091
Total expenses	270,990,977	-	270,990,977
Other gains and losses:			
Investment return, net	538,929	-	538,929
Change in benefit obligation	(6,046)	-	(6,046)
Loss on inventory obsolescence	(13,667,195)	-	(13,667,195)
Loss on disposal of property and equipment	(85,089)	-	(85,089)
Total other gains and losses	(13,219,401)	-	(13,219,401)
Change in net assets	22,361,816	336,837	22,698,653
Net assets, beginning of year, as originally stated	102,883,342	556,457	103,439,799
Restatement of prior period financials	(823,274)	-	(823,274)
Net assets, beginning of year, as restated	102,060,068	556,457	102,616,525
Net assets, end of year	$ 124,421,884	$ 893,294	$125,315,178

See accompanying notes to consolidated financial statements

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Consolidated Statement of Functional Expenses
Year Ended December 31, 2020

	Program	Administrative	Fundraising	Total
Salaries	$ 2,898,138	$ 723,666	$ 249,251	$ 3,871,055
Employee benefits	325,623	81,308	28,005	434,936
Payroll taxes	227,040	56,692	19,526	303,258
Retirement	69,287	17,301	5,959	92,547
Total salaries and related	3,520,088	878,967	302,741	4,701,796
Humanitarian supplies and aid	263,345,579	-	-	263,345,579
Depreciation	908,640	21,831	7,957	938,428
Miscellaneous	360,667	51,762	249,451	661,880
Occupancy	414,485	17,452	4,363	436,300
Professional services	321,557	15,995	18,727	356,279
Supplies	259,637	38,860	23,723	322,220
Equipment rental and maintenance	146,615	472	458	147,545
Interest	46,329	1,950	488	48,767
Fundraising events	-	-	32,183	32,183
Total expenses	$269,323,597	$ 1,027,289	$ 640,091	$270,990,977

See accompanying notes to consolidated financial statements

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Consolidated Statement of Cash Flows
Year Ended December 31, 2020

Cash flows from operating activities	
Change in net assets	$ 22,698,653
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	938,429
Net realized and unrealized gains on investments	(468,582)
Non-cash donations received	(293,168,458)
Distribution of non-cash donations	260,377,539
Loss on impairment of inventory	13,667,195
Loss on disposal of property and equipment	85,089
Changes in:	
Receivables and other assets	(318,050)
Accounts payable	115,766
Accrued payroll and related	28,918
Other accrued liabilities	(22,717)
Accumulated postretirement benefit obligation	(90,233)
Net cash provided by operating activities	3,843,549
Cash flows from investing activities	
Proceeds from sale of investments	587,000
Purchase of investments	(418,184)
Purchase of property and equipment	(677,046)
Net cash used in investing activities	(508,230)
Cash flows from financing activities	
Repayment of line of credit	(373,737)
Proceeds from issuance of note payable	865,900
Payments on notes payable	(50,000)
Net cash provided by financing activities	442,163
Net change in cash and cash equivalents	3,777,482
Cash and cash equivalents, beginning of year	1,525,189
Cash and cash equivalents, end of year	$ 5,302,671

See accompanying notes to consolidated financial statements

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Matthew 25 Ministries, Inc. (M25M) is a not-for-profit, non-denominational, ecumenical, inter-faith ministry headquartered in Blue Ash, Ohio. Mathew 25: Ministries is a humanitarian aid and disaster relief non-profit organization headquartered in Blue Ash, Ohio. Matthew 25 helps the poorest of the of the poor and disaster victims throughout the United States and around the world. The Organization receives goods donated by businesses, individuals, and other organizations. The goods are processed and distributed to those in need, both domestically and internationally. Other support is from financial donations and shipping and handling fees collected to defray warehousing and transportation expenses and monetary contributions from individuals, businesses and churches.

M25M Haiti, LLC was formed as a single-member limited liability company in the state of Ohio. M25M is the sole member of M25M Haiti, LLC. M25M Haiti, LLC was formed to lease, purchase, invest in the renovation, construct, manage and operate lodging and hotel facilities for missionaries and their guests in the country of Haiti and to undertake programs for aid and humanitarian relief.

Principles of Consolidation

The accompanying financial statements include the assets, liabilities and financial activities of M25M and M25M Haiti, LLC (collectively, the Organization). All significant inter-organizational balances and transactions have been eliminated for purposes of this presentation.

Financial Statement Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which are available for use in general operations and not subject to donor restrictions; and net assets with donor restrictions, which are either temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, or are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Fair Value Measurements

GAAP has a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 inputs are unadjusted quoted prices for identical assets in active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management's best estimate of what market participants would use as fair value.

Cash

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory and Non-Cash Donations

Donated inventory consists primarily of clothing, fabric, food, personal care items, medical and school supplies donated by businesses, individuals, and other organizations. Donated inventory is recorded as revenue at estimated wholesale value on the date of the receipt and such items are recorded as an expense when they are shipped. Purchased inventory is recorded at the lower of cost or market using the specific identification method. The Organization uses the specific identification method to determine the value of ending donated inventory.

Investments and Investment Return

Investments in equity and debt securities are carried at fair market value. Investment return includes dividends, interest and other investment income and realized and unrealized gains and losses on investments. Investment return that is initially restricted by donor stipulations and for which the restriction will be satisfied in the same year is recorded as revenue and net assets with donor restrictions and then released from restrictions. Other investment return is reflected in the statements of activities as net assets with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Handling and Shipping Reimbursements Receivable

Handling and shipping reimbursements receivable are amounts due from certain partner organizations. Management believes that all receivables are fully collectible within a reasonable period after year end. Therefore, no allowance for uncollectible accounts is provided.

Property and Equipment

Property and equipment are recorded at cost or fair value at the time of the gift in the case of donated items. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets. Maintenance and repairs are expensed as incurred while significant improvements are capitalized.

GAAP requires the Organization to assess the recoverability of the carrying amount of property and equipment if certain events or changes occur, such as a significant decrease in market value of the assets or a significant change in operating conditions. Based on its most recent analysis, the Organization believes no impairments existed at December 31, 2020 and 2019

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue and net assets with donor restrictions and then released from restrictions.

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenues when the conditions are substantially met and the gift becomes unconditional.

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of Ohio state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization’s IRS Form 990 is subject to review and examination by federal and state authorities. The Organization believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain income tax positions that are material to the financial statement.

Functional Allocation of Expenses

The cost of programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services. Such allocations are determined by management on an equitable basis. The most significant allocations were salaries and related expenses, which were allocated based upon estimates of time spent by the Organization’s personnel, and occupancy and depreciation, which were allocated based on estimated utilization.

Use of Estimates

The preparation of financial statement in conformity with GAAP requires management to make estimates and assumptions that effect certain reported amounts of assets and liabilities and disclosures. Actual results could differ from those estimates.

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standard

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating, which will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Organization's year ending December 31, 2022. The Organization is currently in the process of evaluating the impact of the adoption of this ASU on the consolidated financial statements.

Subsequent Event Evaluation

In preparing its financial statements, the Organization has evaluated events subsequent to the statement of financial position date through November 2, 2021, which is the date the consolidated financial statements were issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

The Organization's financial assets available within one year of the statement financial position date for general expenditure are as follows as of December 31, 2020:

Cash and cash equivalents	$ 5,302,671
Receivables and other assets	1,091,810
Investments	6,294,322
Less: net assets restricted for capital improvements	(500,000)
	$ 12,188,803

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 and programs as well as general expenses that support the programs. The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization also has lines of credit available to meet operating cash needs, if necessary (see Note 5).

NOTE 3 INVESTMENTS AT FAIR VALUE

Investments at fair value as of December 31, 2020 consisted of the following:

Level 1:	
Common stocks	$ 3,417,985
Exchange traded funds	221,078
Equity mutual funds	415,811
Fixed income mutual funds	2,987
Level 2:	
Corporate bonds	849,518
U.S. Treasury, agency and municipal bonds	1,057,884
Money market funds	329,059
	$ 6,294,322

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity and fixed income mutual funds and exchange traded funds. If quoted market prices are not available, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Level 2 securities include money market funds. There were no valuations using Level 3 inputs.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2020 consisted of the following:

Land, buildings and improvements	$ 13,606,338
Machinery and equipment	2,965,944
Office furniture and equipment	121,716
Construction in progress	363,019
Less accumulated depreciation	(4,678,636)
	$ 12,378,381

NOTE 5 LINES OF CREDIT

The Organization has a $1,300,000 line of credit bearing interest at the prime rate (3.25% at December 31, 2020), with the outstanding principal balance due in September 2027. The line is secured by the Organization's financial assets. This line of credit had an outstanding balance of $1,050,000 as of December 31, 2020.

The Organization has a $700,000 line of credit bearing interest at the prime rate (3.25% at December 31, 2020), with the outstanding principal balance due in September 2027. The line is secured by the Organization's financial assets. This line of credit had an outstanding balance of $575,896 as of December 31, 2020.

Effective March 27, 2020, the Organization entered into a $2,000,000 line of credit with another bank bearing interest at the daily LIBOR rate, plus 2.25% (2.39% at December 31, 2020), with the outstanding principal balance due in March 2021. Subsequent to year-end, this line of credit was renewed and extended through March 31, 2022. The line is secured by the Organization's financial assets. No balance was outstanding on this line of credit as of December 31, 2020.

NOTE 6 NOTES PAYABLE

The Organization had a non-interest bearing loan associated with the purchase of property in Wilmington, Ohio. The balance of the note payable as of December 31, 2019 was $50,000. This loan was paid in-full during 2020.

On April 23, 2020, the Organization qualified for and received a loan pursuant to the Paycheck Protection Program (the "Program"), a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security's Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of $865,900 (the "PPP Loan"). The PPP Loan bears interested at a fixed rate of 1.00% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the PPP Loan is subject to forgiveness under the Program upon the Organization's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Organization. On April 16, 2021, the Organization received notification from the bank that the loan was fully forgiven and used in accordance with the Program requirements. Accordingly, the full amount was recognized as debt forgiveness income in 2021.

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2020 consisted of the following:

Chapel	$ 500,000
Hurricane Dorian	345,119
Belvi	3,369
Food processing	1,627
Other	43,179
	$ 893,294

NOTE 8 OPERATING LEASES

The Organization has entered into non-cancellable operating leases for office and warehouse equipment. The leases expire at various times through August 2024. Rent expense under these operating leases was $117,504 for the years ended December 31, 2020.

Future minimum lease payments as of December 31, 2020 are as follows:

2021	$ 92,477
2022	92,477
2023	88,626
2024	24,592
	$ 298,172

NOTE 9 RETIREMENT PLANS

The Organization sponsors a defined contribution retirement plan available to all full-time staff. The plan provides for a match of voluntary employee contributions up to 2% of the employee's annual salary. Employees are eligible to participate in the plan immediately. Contributions made by the Organization were $92,546 for the years ended December 31, 2020.

NOTE 10 RELATED PARTY TRANSACTIONS

During March 2018, the Organization entered into a license agreement with the founder and former President who is also the father of the current CEO. The agreement grants the Organization a non-exclusive, world-wide license to reproduce, perform publicly, display, transmit, distribute, and create derivative works based on the name, image and likeness of the founder and former President, the published and unpublished works as well as all future works of the founder and former President. The agreement requires the Organization to pay an annual fee of $162,000, payable in equal monthly installments for an initial term of three years and shall be automatically renewed for a period of one year unless terminated by either party within thirty days prior to the commencement of the next term. The Organization paid the founder and former President $162,000 in 2020.

Post-Retirement Benefit Plan

Effective August 31, 2018, the Organization entered into an unfunded, non-contributory Founder's Medical Expenses Reimbursement Plan (the Plan) with the founder and former President. The agreement allows the participant to receive reimbursement for up to $100,000 of qualifying medical expenses incurred by the founder or his spouse during each plan year until the death of both the founder and his spouse. The Plan is unfunded and neither the Organization nor the participants contribute to the Plan. The Organization has recognized an accumulated postretirement benefit obligation of $733,041 as of December 31, 2020. During 2020, the Organization reimbursed the participant for qualifying expenses of $96,279. The Organization expects to reimburse the participants $100,000 in each of the next five years and $161,119 in aggregate for the five years thereafter. The assumed discount rate used to determine the accumulated postretirement benefit obligation was 1.97% and the assumed health care cost trend rate was 2.47%. There were no amendments, combinations, divestitures, curtailments or settlements during 2020.

NOTE 11 RISKS AND UNCERTAINTIES

The Organization's investments consist of common stocks, U.S Government and fixed income securities and mutual funds. Investment securities are exposed to various risks, such as credit, market and interest rate. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statement of financial position at December 31, 2020. However, the diversification of the Organization's investments among various asset classes should mitigate the impact of any adverse changes on any one asset class. Investments are managed by the Board of Trustees with advice and assistance from investment professionals.

NOTE 12 RESTATEMENT OF PRIOR PERIOD FINANCIALS

The December 31, 2019 financial statements have been restated to properly recognize the accumulated postretirement benefit obligation associated with the Founder's Medical Expenses Reimbursement Plan established by the Organization. The impact on beginning of year net assets is $823,274.

NOTE 13 COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, regional and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy.

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Organization's operating and financial results will depend on future developments, including the duration and spread of the outbreak.

NOTE 14 SUBSEQUENT EVENTS

On July 8, 2021, the Organization entered into an agreement to purchase the property located at 11093 Kenwood Road in Blue Ash, Ohio for $3,700,000 paid in cash.