

Matthew 25 Ministries and Subsidiary

**Consolidated Financial Statements
December 31, 2021 and 2020, and
Independent Auditors' Report**

MATTHEW 25 MINISTRIES AND SUBSIDIARY

December 31, 2021 and 2020

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Independent Auditors' Report

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

Opinion

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, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Matthew 25 Ministries and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Matthew 25 Ministries and Subsidiary's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Matthew 25 Ministries and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Matthew 25 Ministries and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Barnes, Dennig & Co., Ltd.

April 12, 2022
Cincinnati, Ohio

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Consolidated Statements of Financial Position December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash	\$ 5,175,376	\$ 5,302,671
Receivables and other assets	382,636	1,091,810
Inventory	118,312,990	104,306,686
Investments	6,100,718	6,294,322
Property and equipment, net	<u>16,901,955</u>	<u>12,378,381</u>
Total assets	<u>\$ 146,873,675</u>	<u>\$ 129,373,870</u>
Liabilities and Net Assets		
Liabilities		
Lines of credit	\$ 1,000,367	\$ 1,626,263
Accounts payable	423,048	314,698
Accrued payroll and related	177,789	126,077
Other accrued liabilities	67,358	392,713
Accumulated postretirement benefit obligation	634,886	733,041
Notes payable	<u>62,774</u>	<u>865,900</u>
Total liabilities	<u>2,366,222</u>	<u>4,058,692</u>
Net Assets		
Without donor restrictions	142,100,986	124,421,884
With donor restrictions	<u>2,406,467</u>	<u>893,294</u>
Total net assets	<u>144,507,453</u>	<u>125,315,178</u>
Total liabilities and net assets	<u>\$ 146,873,675</u>	<u>\$ 129,373,870</u>

See accompanying notes to consolidated financial statements

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Consolidated Statement of Activities Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, gains and other support			
Non-cash donations received	\$ 301,970,622	\$ -	\$ 301,970,622
Contributions	9,830,562	4,319,637	14,150,199
Handling and shipping reimbursements	1,386,746	-	1,386,746
Forgiveness of Paycheck Protection Program (PPP) loan	865,900	-	865,900
Investment return, net	777,391	-	777,391
Other program income	392,382	-	392,382
Special events, net	18,081	-	18,081
Other income	44,966	-	44,966
Mission hotel revenue	10,391	-	10,391
Loss on disposal of property and equipment	(5,950)	-	(5,950)
Released from restrictions	<u>2,806,464</u>	<u>(2,806,464)</u>	<u>-</u>
Total revenue, gains and other support	<u>318,097,555</u>	<u>1,513,173</u>	<u>319,610,728</u>
Expenses			
Program services	298,436,500	-	298,436,500
General and administrative	1,360,918	-	1,360,918
Fundraising	<u>621,035</u>	<u>-</u>	<u>621,035</u>
Total expenses	<u>300,418,453</u>	<u>-</u>	<u>300,418,453</u>
Change in net assets	<u>17,679,102</u>	<u>1,513,173</u>	<u>19,192,275</u>
Net assets, beginning of year	<u>124,421,884</u>	<u>893,294</u>	<u>125,315,178</u>
Net assets, end of year	<u>\$ 142,100,986</u>	<u>\$ 2,406,467</u>	<u>\$ 144,507,453</u>

See accompanying notes to consolidated financial statements

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Consolidated Statement of Activities Year Ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
Investment return, net	538,929	-	538,929
Other program income	303,698	-	303,698
Special events	42,383	-	42,383
Other income	39,372	-	39,372
Mission hotel revenue	7,584	-	7,584
Loss on disposal of property and equipment	(85,089)	-	(85,089)
Released from restrictions	<u>3,457,493</u>	<u>(3,457,493)</u>	<u>-</u>
Total revenue, gains and other support	<u>307,026,034</u>	<u>336,837</u>	<u>307,362,871</u>
Expenses			
Program services	282,998,284	-	282,998,284
General and administrative	1,027,709	-	1,027,709
Fundraising	<u>638,225</u>	<u>-</u>	<u>638,225</u>
Total expenses	<u>284,664,218</u>	<u>-</u>	<u>284,664,218</u>
Change in net assets	<u>22,361,816</u>	<u>336,837</u>	<u>22,698,653</u>
Net assets, beginning of year	<u>102,060,068</u>	<u>556,457</u>	<u>102,616,525</u>
Net assets, end of year	<u>\$ 124,421,884</u>	<u>\$ 893,294</u>	<u>\$ 125,315,178</u>

See accompanying notes to consolidated financial statements

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Consolidated Statement of Functional Expenses Year Ended December 31, 2021

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 3,229,482	\$ 924,142	\$ 272,206	\$ 4,425,830
Employee benefits	614,100	175,730	51,761	841,591
Payroll taxes	252,231	72,178	21,260	345,669
Retirement	81,539	23,333	6,873	111,745
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Total salaries and related	4,177,352	1,195,383	352,100	5,724,835
Humanitarian supplies and aid	280,894,408	-	-	280,894,408
Inventory obsolescence	9,676,128	-	-	9,676,128
Depreciation	1,113,930	26,558	6,766	1,147,254
Other programs	1,046,557	-	-	1,046,557
Occupancy	457,474	19,262	4,816	481,552
Supplies	355,415	17,257	11,038	383,710
Equipment rental and maintenance	267,918	6,327	5,477	279,722
Fundraising events	127	109	183,873	184,109
Royalties	172,000	-	-	172,000
Information technology	80,190	23,434	19,333	122,957
Office	61,498	41,536	16,383	119,417
Interest	72,470	3,051	763	76,284
Other	44,119	4,513	7,235	55,867
Accounting fees	16,914	22,840	13,251	53,005
Legal fees	-	648	-	648
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 298,436,500</u>	<u>\$ 1,360,918</u>	<u>\$ 621,035</u>	<u>\$ 300,418,453</u>

See accompanying notes to consolidated financial statements

MATTHEW 25 MINISTRIES AND SUBSIDIARY

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2020**

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 2,898,138	\$ 723,666	\$ 249,251	\$ 3,871,055
Employee benefits	325,623	87,354	28,005	440,982
Payroll taxes	227,040	56,692	19,526	303,258
Retirement	69,287	17,301	5,959	92,547
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Total salaries and related	3,520,088	885,013	302,741	4,707,842
Humanitarian supplies and aid	263,345,579	-	-	263,345,579
Inventory obsolescence	13,667,195	-	-	13,667,195
Depreciation	908,640	21,831	7,957	938,428
Other programs	246,062	-	-	246,062
Occupancy	414,485	17,452	4,363	436,300
Supplies	195,932	10,057	8,906	214,895
Equipment rental and maintenance	146,615	472	458	147,545
Fundraising events	-	-	32,183	32,183
Royalties	162,000	-	-	162,000
Information technology	63,678	28,803	14,825	107,306
Office	48,765	30,333	90,602	169,700
Interest	46,329	1,950	488	48,767
Other	207,443	16,962	162,201	386,606
Accounting fees	21,799	7,488	6,153	35,440
Legal fees	3,674	7,348	7,348	18,370
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 282,998,284</u>	<u>\$ 1,027,709</u>	<u>\$ 638,225</u>	<u>\$ 284,664,218</u>

See accompanying notes to consolidated financial statements

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Consolidated Statements of Cash Flows Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 19,192,275	\$ 22,698,653
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,147,255	938,429
Net realized and unrealized gains on investments	(702,871)	(468,582)
Non-cash donations received	(301,970,622)	(293,168,458)
Distribution of non-cash donations	278,288,190	260,377,539
Loss on inventory obsolescence	9,676,128	13,667,195
Forgiveness of PPP loan	(865,900)	-
Loss on disposal of property and equipment	5,950	85,089
Changes in:		
Receivables and other assets	709,174	(318,050)
Accounts payable	108,350	115,766
Accrued payroll and related	51,712	28,918
Other accrued liabilities	(325,355)	(22,717)
Accumulated postretirement benefit obligation	(98,155)	(90,233)
Net cash provided by operating activities	5,216,131	3,843,549
Cash flows from investing activities		
Proceeds from sale of investments	1,443,758	587,000
Purchase of investments	(547,283)	(418,184)
Purchase of property and equipment	(5,676,779)	(677,046)
Net cash used in investing activities	(4,780,304)	(508,230)
Cash flows from financing activities		
Draws on line of credit	874,104	-
Repayment of line of credit	(1,500,000)	(373,737)
Proceeds from issuance of note payable	62,774	865,900
Payments on notes payable	-	(50,000)
Net cash provided by (used in) financing activities	(563,122)	442,163
Net change in cash	(127,295)	3,777,482
Cash, beginning of year	5,302,671	1,525,189
Cash, end of year	\$ 5,175,376	\$ 5,302,671
Supplemental cash flows information		
Cash paid for interest	\$ 76,284	\$ 48,767

See accompanying notes to consolidated financial statements

MATTHEW 25 MINISTRIES AND SUBSIDIARY

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.

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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, 2021 and 2020.

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.

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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.

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard increases transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. These include separate presentation in the statement of activities, disaggregation by type, policy and qualitative information about monetization and utilization, description of valuation techniques and inputs used to arrive at a fair value measure, and donor-imposed restrictions associated with the contributed nonfinancial assets. This standard will be effective for the Organization's calendar year ending December 31, 2022.

The Organization is currently in the process of evaluating the impact of the adoption of these ASUs 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 April 12, 2022, 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 5,175,376	\$ 5,302,671
Receivables and other assets	382,636	1,091,810
Investments	6,100,718	6,294,322
Less: net assets restricted for capital improvements	<u>(470,044)</u>	<u>(500,000)</u>
	<u>\$ 11,188,686</u>	<u>\$ 12,188,803</u>

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).

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

NOTE 3 INVESTMENTS AT FAIR VALUE

Investments at fair value as of December 31, 2021 and 2020 consisted of the following:

	2021	2020
Level 1:		
Common stocks	\$ 3,636,264	\$ 3,417,985
Exchange traded funds	234,958	221,078
Equity mutual funds	227,309	415,811
Fixed income mutual funds	-	2,987
Level 2:		
Corporate bonds	752,800	849,518
U.S. Treasury, agency and municipal bonds	834,993	1,057,884
Money market funds	414,394	329,059
	<u>\$ 6,100,718</u>	<u>\$ 6,294,322</u>

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, 2021 and 2020 consisted of the following:

	2021	2020
Land, buildings and improvements	\$ 19,107,628	\$ 13,606,338
Machinery and equipment	2,994,322	2,965,944
Office furniture and equipment	245,609	121,716
Construction in progress	354,127	363,019
Less accumulated depreciation	<u>(5,799,731)</u>	<u>(4,678,636)</u>
	<u>\$ 16,901,955</u>	<u>\$ 12,378,381</u>

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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, 2021 and 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 \$300,367 and \$1,050,000 as of December 31, 2021 and 2020, respectively.

The Organization has a \$700,000 line of credit bearing interest at the prime rate (3.25% at December 31, 2021 and 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 \$200,000 and \$576,263 as of December 31, 2021 and 2020, respectively.

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% (2.35% and 2.39% at December 31, 2021 and 2020, respectively), with the outstanding principal balance due in March 2022. The line is secured by the Organization's financial assets. This line of credit had an outstanding balance of \$500,000 and \$0 as of December 31, 2021 and 2020, respectively.

NOTE 6 NOTES PAYABLE

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 interest 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.

The Organization has a note payable with an outstanding balance of \$62,775 as of December 31, 2021. The note payable is non-interest bearing and is payable in monthly installments of \$1,744, through maturity in December 2024. The note is secured by a vehicle and future minimum annual payments are \$20,925 for each of the next three years through 2024.

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Tornado disaster relief	\$ 1,369,562	\$ -
Chapel	470,044	500,000
Hurricane Dorian	328,822	345,119
Haiti Earthquake	182,256	-
Other	30,086	43,179
Food processing	25,697	1,627
Belvi	-	3,369
	<u>\$ 2,406,467</u>	<u>\$ 893,294</u>

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 March 2025. Rent expense under these operating leases was \$156,285 for the years ended December 31, 2021.

Future minimum lease payments as of December 31, 2021 are as follows:

2022	\$ 78,514
2023	77,551
2024	27,945
2025	<u>558</u>
	<u>\$ 184,568</u>

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 \$111,744 and \$92,546 for the years ended December 31, 2021 and 2020, respectively.

NOTE 10 CONCENTRATIONS

GAAP requires disclosures of current vulnerabilities due to concentrations. One donor accounted for approximately 10.3% and 25.4% of non-cash donations received for the year ended December 31, 2021 and 2020, respectively.

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

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. In January 2022, the Board agreed to increase the royalties paid to \$172,000 per year, retroactive to 2021. The Organization paid the founder and former President \$172,000 and \$162,000 in 2021 and 2020, respectively.

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 \$634,886 and \$733,041 as of December 31, 2021 and 2020, respectively. During 2021 and 2020, the participant incurred qualifying expenses of \$100,000 and \$96,279, respectively, and was subsequently reimbursed by the Organization. The Organization expects to reimburse the participants \$426,461 in aggregate over 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 2021.

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, 2021. 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.

MATTHEW 25 MINISTRIES AND SUBSIDIARY

Notes to Consolidated Financial Statements (Continued)

NOTE 12 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.