

**ST. MATTHEW'S HOUSE, INC.
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2019 and 2018



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October 04, 2019

Board of Directors
St. Matthew's House, Inc. and Affiliates
Naples, Florida

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying consolidated financial statement of St. Matthew's House, Inc. and Affiliates (the Organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 consolidated financial position of St. Matthew's House, Inc. and Affiliates as of June 30, 2019, 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.

Prior Period Summarized Financial Statements

The summarized consolidated financial statements presented herein of St. Matthew's House, Inc. and Affiliates as of June 30, 2018, were audited by other auditors whose report dated October 31, 2018, expressed an unmodified opinion on those consolidated financial statements. We are not engaged to audit, review, or apply any procedures to St. Matthew's House, Inc. and Affiliates' 2018 consolidated financial statements, and we do not express an opinion or any other assurance on the 2018 consolidated financial statements as a whole.

Hill, Barth & King LLC

Certified Public Accountants

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

ASSETS

CURRENT ASSETS

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,172,751	\$ 2,527,992
Accounts receivable	122,790	62,915
Grants receivable	9,747	11,256
Inventory	222,440	347,494
Pledges receivable, net - current portion - NOTE E	561,155	4,506,540
Prepaid expenses	210,032	173,732
Other assets	26,185	15,950
TOTAL CURRENT ASSETS	<u>2,325,100</u>	<u>7,645,879</u>

INVESTMENTS

Investment in marketable securities - NOTE F	1,366,233	1,210,103
Beneficial interest in assets held by others - NOTE C	155,340	153,558
TOTAL INVESTMENTS	<u>1,521,573</u>	<u>1,363,661</u>

PLEDGES RECEIVABLE, NET - LESS

<u>CURRENT PORTION - NOTE E</u>	876,409	877,519
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PROPERTY AND EQUIPMENT, NET - NOTE H

	29,143,190	23,148,361
TOTAL ASSETS	<u>\$ 33,866,272</u>	<u>\$ 33,035,420</u>

See accompanying notes to consolidated financial statements

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

June 30, 2019 and 2018

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>	<u>2019</u>	<u>2018</u>
Accounts payable and accrued expenses	\$ 1,022,856	\$ 902,098
Resident's deposits	12,607	9,037
Current portion of gift annuities payable - NOTES G AND I	71,397	0
Current portion of capital lease obligations - NOTE K	56,278	34,068
Current portion of long-term debt - NOTE L	89,530	89,350
TOTAL CURRENT LIABILITIES	1,252,668	1,034,553
<u>LONG-TERM LIABILITIES</u>		
Gift annuities payable less current portion - NOTES G AND I	206,295	0
Capital lease obligations less current portion - NOTE K	140,047	104,518
Long-term debt less current portion - NOTE L	1,393,264	1,469,772
TOTAL LONG-TERM LIABILITIES	1,739,606	1,574,290
TOTAL LIABILITIES	2,992,274	2,608,843
<u>NET ASSETS</u>		
Without donor restrictions:		
Undesignated	3,202,347	9,052
Designated - NOTE M	1,919,386	1,987,451
Invested in property and equipment	23,746,559	21,547,764
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	28,868,292	23,544,267
With donor restrictions:		
Purpose restrictions - NOTE N	568,141	1,498,251
Time restricted for future periods - NOTE N	1,437,565	5,384,059
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	2,005,706	6,882,310
TOTAL NET ASSETS	30,873,998	30,426,577
TOTAL LIABILITIES AND NET ASSETS	\$ 33,866,272	\$ 33,035,420

See accompanying notes to consolidated financial statements

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2019
(with summarized comparative totals for the year ended June 30, 2018)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTALS	
			2019	2018
<u>SUPPORT</u>				
Contributions - general	\$ 4,181,121	\$ 882,046	\$ 5,063,167	\$ 4,318,210
Contributions - capital campaigns	0	795,024	795,024	4,282,584
Grants - NOTE O	79,069	87,500	166,569	498,428
Donated property	972,436	0	972,436	0
In-kind contributions	572,319	0	572,319	988,042
TOTAL SUPPORT	5,804,945	1,764,570	7,569,515	10,087,264
<u>REVENUE</u>				
Special events - net of related costs	437,697	0	437,697	470,585
Thrift shop revenue	7,262,733	0	7,262,733	6,914,251
Thrift café	179,430	0	179,430	236,063
Catering services	378,344	0	378,344	381,778
Rental income	559,695	0	559,695	316,295
Program services	624,119	0	624,119	629,700
Investment income	71,640	0	71,640	93,499
Other income	144,974	0	144,974	140,562
TOTAL REVENUE	9,658,632	0	9,658,632	9,182,733
Net assets released from restrictions	6,641,174	(6,641,174)	0	0
TOTAL SUPPORT AND REVENUE	22,104,751	(4,876,604)	17,228,147	19,269,997
<u>EXPENSES</u>				
Program services	6,687,230	0	6,687,230	5,219,893
Management and general	1,490,575	0	1,490,575	1,236,136
Fundraising	1,739,892	0	1,739,892	1,686,987
TOTAL OPERATING EXPENSES	9,917,697	0	9,917,697	8,143,016
Thrift shop	5,813,826	0	5,813,826	5,990,788
Properties	270,372	0	270,372	0
Foundation	11,440	0	11,440	0
Oxbow Hospitality	767,391	0	767,391	647,540
TOTAL EXPENSES	16,780,726	0	16,780,726	14,781,344
CHANGES IN NET ASSETS	5,324,025	(4,876,604)	447,421	4,488,653
<u>NET ASSETS</u>				
Beginning of year	23,544,267	6,882,310	30,426,577	25,937,924
End of year	\$ 28,868,292	\$ 2,005,706	\$ 30,873,998	\$ 30,426,577

See accompanying notes to consolidated financial statements

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Year ended June 30, 2019
(with summarized comparative totals for the year ended June 30, 2018)

	SUPPORTING SERVICES							TOTALS	
	PROGRAM SERVICES	MANAGEMENT THRIFT SHOP, AND GENERAL	CAR WASH, AND CAFES	FUNDRAISING	OXBOW HOSPITALITY	PROPERTIES	FOUNDATION	2019	2018
Advertising	\$ 6,072	\$ 2,018	\$ 9,539	\$ 293,986	\$ 2,180	\$ 0	\$ 0	\$ 313,795	\$ 253,085
Auto and travel	173,842	7,900	290,158	12,309	0	0	0	484,209	472,672
Café expense	0	0	880	0	0	0	0	880	219,806
Depreciation and amortization	188,579	382,400	25,246	180,252	10,230	146,228	0	932,935	822,986
Food and vending supplies	363,224	3,962	10,563	15,419	28,377	0	0	421,545	254,270
In-kind food	670,000	0	0	0	0	0	0	670,000	703,000
Interest	10,891	1,201	70,910	1,413	13	0	0	84,428	67,957
Occupancy	613,590	67,092	920,599	62,737	253,159	53,877	0	1,971,054	1,679,129
Office expense	291,055	73,882	370,960	133,157	96,284	500	15	965,853	841,300
Professional	49,059	39,427	4,183	1,729	0	69,767	0	164,165	94,615
Resident/client assistance	316,430	0	32,265	3,280	0	0	11,425	363,400	284,832
Salaries and benefits	3,825,132	912,693	3,820,948	1,008,099	353,710	0	0	9,920,582	8,661,411
Bad debt expense	179,356	0	4,774	27,511	0	0	0	211,641	426,281
Other	0	0	252,801	0	23,438	0	0	276,239	0
TOTAL	\$ 6,687,230	\$ 1,490,575	\$ 5,813,826	\$ 1,739,892	\$ 767,391	\$ 270,372	\$ 11,440	\$ 16,780,726	\$ 14,781,344

See accompanying notes to consolidated financial statements

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Changes in net assets	\$ 447,421	\$ 4,488,653
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	932,935	822,985
In kind donations	(1,160,336)	0
Loss on disposition of property and equipment	3,602	53,884
Net appreciation on investments	(33,426)	(2,554)
Realized gain on sale of investments	(3,759)	(65,463)
Change in allowance of uncollectible pledges receivable	95,383	(215,749)
Change in net present value discount on pledges receivable	15,840	23,082
(Increase) decrease in current assets:		
Accounts receivable	(155,260)	36,099
Pledges receivable	3,930,654	(3,024,279)
Bequest receivable	0	700,000
Grants receivable	1,509	(11,256)
Inventory	124,660	(238,693)
Prepaid expenses	(36,300)	(8,709)
Other assets	(10,235)	82,306
Increase (decrease) in current liabilities:		
Accounts payable, accrued expenses, resident's deposits and other liabilities	124,300	(79,371)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,276,988</u>	<u>2,560,935</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of property and equipment	(5,628,453)	(2,250,557)
Purchases of investments	(972,997)	(1,333,544)
Proceeds from sale of investments	1,040,593	1,317,666
Investment in beneficial assets held by others	0	(153,558)
Proceeds from sale of certificate of deposit	0	96,570
NET CASH USED IN INVESTING ACTIVITIES	<u>(5,560,857)</u>	<u>(2,323,423)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Borrowing from line of credit	1,075,000	1,200,000
Payments on line of credit	(1,075,000)	(1,200,000)
Payments to beneficiaries of split interest agreement	(47,274)	0
Principal payments on long-term debt	(80,126)	(81,668)
Principal payments on capital lease obligations	(52,669)	(38,702)
Proceeds from capital lease obligation	108,697	0
NET CASH USED IN FINANCING ACTIVITIES	<u>(71,372)</u>	<u>(120,370)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,355,241)</u>	117,142

See accompanying notes to consolidated financial statements

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of year	\$ 2,527,992	\$ 2,410,850
End of year	<u>\$ 1,172,751</u>	<u>\$ 2,527,992</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid for interest	<u>\$ 84,428</u>	<u>\$ 67,957</u>
<u>SUPPLEMENTAL DISCLOSURE OF NONCASH</u>		
<u>INVESTING AND FINANCING ACTIVITIES</u>		
Acquisition of equipment from incurrence of notes payable	<u>\$ 0</u>	<u>\$ 130,843</u>
Donated land and building	<u>\$ 1,297,405</u>	<u>\$ 0</u>
Acquisition of equipment from incurrence of capital lease	<u>\$ 108,697</u>	<u>\$ 84,241</u>

See accompanying notes to consolidated financial statements

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations:

St. Matthew's House, Inc. and Affiliates (collectively, the Organization) is comprised of St. Matthew's House, Inc. (St. Matt's) and its affiliates under common control: St. Matthew's House Foundation, Inc. (SMH Foundation), SMH Properties of Southwest Florida, Inc. (SMH Properties), and Oxbow Hospitality, Inc. (Oxbow).

St. Matthew's House, Inc., a nonprofit corporation, was formed in December 1988. The mission of St. Matthew's House is to impact the lives of the least of these in a spiritual environment that is both compassionate and disciplined. Through this mission, St. Matthew's House provides housing, meals, transportation, and counseling to homeless and indigent individuals and families in Naples and Collier County, Florida.

In 2009, the Immokalee Friendship House, which was formed in September 1987 and provided similar services to the residents of Collier County, merged with St. Matthew's House, Inc. As a result of the merger, both organizations were combined under the name St. Matthew's House, Inc.

St. Matthew's House, Inc. operates 104-bed and 44-bed shelters in Naples and Immokalee, respectively. The operations of St. Matt's also run the "Wolfe Apartments," a 46-unit transitional housing facility in Naples. Correspondingly, St. Matt's operates men and women's recovery programs that offer temporary housing in a drug and alcohol-free community with a three-phase program. Furthermore, the operations also support a feeding ministry that provides more than 500,000 hot meals and 6,500 bags of groceries each year. St. Matt's is supported primarily through its six operating thrift stores, donor contributions and grants, rent and program fees charged to residents, special events, a food catering operation, M25 Cafes, and its newly opened car wash and detailing center.

St. Matthew's Foundation, Inc., a nonprofit corporation, was formed in February 2006, and is wholly-owned by St. Matthew's House, Inc. The corporation's primary purpose is to advance the mission of St. Matthew's House, Inc. In 2014, the Foundation began collecting donations in order to establish and administer a scholarship fund for clients going through St. Matthew's House, Inc. programs. In addition, a board-designated fund was set up in May 2014 to aid in carrying out the mission of St. Matt's.

St. Matthew's House Properties, Inc., a nonprofit corporation, was formed in October 2011 and is wholly-owned by St. Matthew's House, Inc. The corporation's primary purpose is to advance the mission of St. Matthew's House, Inc. In May 2014, it purchased the Port Labelle Inn, a 47-room hotel located on approximately eight acres of land in Labelle, Florida, including meeting rooms and a restaurant. SMH Properties rents the building and the land to Oxbow Hospitality, Inc.

Oxbow Hospitality, Inc., a for-profit corporation, was formed in April 2014 and is wholly-owned by St. Matthew's House, Inc. The corporation's primary purpose is to advance the mission of St. Matthew's House, Inc. Oxbow rents the Port Labelle Inn from SMH Properties and operates the hotel as a conference and retreat center. Oxbow also leases one of its floors to St. Matt's for the Justin's Place Recovery Program residents.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of St. Matt's, SMH Foundation, SMH Properties, and Oxbow (collectively, the Organization), after elimination of intercompany accounts and transactions.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summarized Prior Year Financial Information:

The consolidated financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Basis of Accounting:

The accounts of the Organization are maintained, and the accompanying consolidated financial statements have been prepared, on the accrual basis of accounting. Accordingly, assets are recorded when the Organization obtains the rights of ownership or is entitled to claims for receipt and liabilities are recorded when the obligation is incurred. Revenues are recognized when earned and expenses are recorded when the obligation is incurred.

Beneficial Interests in Assets Held by Others:

Beneficial interests in assets held by others are recorded at fair value. Interest income and market value change earned on the beneficial interest is recorded in the Organization's consolidated statements of activities and changes in net assets.

Income Taxes:

St. Matt's, SMH Foundation, and SMH Properties are exempt from income taxes under the provisions of Internal Revenue Code (the Code) Section 501 (c)(3) and are treated as other than a private foundation within the meaning of Section 509(a) of the Code. Accordingly, no provision for income taxes has been made in these consolidated financial statements.

Oxbow is a for-profit Florida corporation. Current income taxes are based on the year's taxable income for federal and state income tax reporting purposes. Deferred income taxes, if any, are provided on timing differences in recognizing income for financial statement and tax purposes. As of June 30, 2019 and 2018, there are no deferred tax assets or liabilities and there is no current income tax payable.

The Organization is not aware of any activities that would jeopardize its tax-exempt status. The Organization is not aware of any activities that are subject to tax on unrelated business income or excise or other taxes. An Exempt Organization Business Income Tax Return (Form 990-T) is filed annually by the Organization.

Financial Statement Presentation:

The accompanying consolidated financial statements have been prepared in accordance with the reporting principles of nonprofit accounting.

Net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets With Donor Restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents:

For purposes of the consolidated statements of cash flows, the Organization considers all bank and similar deposits, demand accounts, money market funds, and short-term investments with a maturity of three months or less when acquired to be cash equivalents. The Organization maintains bank accounts with balances, which, at times, may exceed federally insured limits.

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible accounts through a provision for bad debt expense and an adjustment to a valuation allowance based upon its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

In addition, management provides work waivers to certain residents with outstanding balances with related balances written off through a charge to program fees and a credit to accounts receivable.

Pledges Receivable, Net:

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the promise is to be received. Conditional promises to give are not included in support until such time as the conditions are substantially met.

Additionally, the Organization uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Inventory:

Inventory consists of donated items received by the Organization for resale in its thrift shops and inventory items for sale in the cafe. Purchased inventory is recorded at the lower of cost or net realizable value. Donated inventory is recorded at the estimated fair market value of donated items on hand at the end of the year.

Investments:

Investments are initially recorded at cost if purchased or, if donated, at fair market value on the date received. Investment securities are reflected at market value, and realized and unrealized gains and losses are recognized as changes in net assets - without donor restrictions unless restricted by the donor, in which case the amounts are reflected as donor restrictions until expended according to the donors' stipulations.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements:

The Organization measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

The fair value hierarchy consists of three levels of inputs used to measure fair value as follows:

Level 1 - Inputs that utilize quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 - Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 - Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. Subsequent to initial recognition, the Organization may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying value amounts to their fair value.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation methodologies used at June 30, 2019 and 2018.

Property and Equipment:

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for 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 donor 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 or purchased and reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Property and equipment are depreciated using the straight-line method calculated over the estimated useful lives of 5 through 39 years. All acquisitions of property and equipment in excess of \$1,500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of the assets are capitalized.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Annuity Obligations:

The Organization is obligated under charitable gift annuity agreements. The obligations were calculated based on actuarial assumptions and the fair values at the dates of receipt. The Organization has recorded a gift annuity obligation equal to the present value of the total anticipated future payments to the beneficiaries. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the value of annuity obligations in the consolidated statements of activities and changes in net assets.

Contributions:

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets donor restricted, depending on the nature of the restrictions. When a restriction expires, net assets donor restricted are reclassified to net assets without donor restrictions.

Functional Expenses:

The costs of providing program and support services have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. The expenses that are charged directly to program or support services are based on management's estimate of resources expended.

Use of Estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications:

Certain items in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. Such reclassifications had no effect on changes in net assets.

Subsequent Events:

Management evaluated all activity of the Organization through October 4, 2019 the date the consolidated financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements or notes.

NOTE B - LIQUIDITY AND AVAILABILITY

The Organization routinely monitors liquidity to meet its operating needs and other contractual commitments. The Organization considers all expenditures related to its ongoing activities. In addition to financial assets available to meet general expenditures, the Organization operates with a balanced operating budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE B - LIQUIDITY AND AVAILABILITY (CONTINUED)

The Organization's financial assets that are available within one year of the consolidated statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	\$ 1,172,751
Accounts and interest receivable	122,790
Grants receivable	9,747
Pledges receivable - current portion	561,155
Short-term investments	1,366,233
TOTAL CURRENT ASSETS AVAILABLE FOR GENERAL USE	<u>\$ 3,232,676</u>

NOTE C - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Organization transferred funds to the Community Foundation of Collier County for investment purposes. The Community Foundation of Collier County holds variance power over the funds and is holding the funds for the benefit of the Organization. Future benefits of these funds remain on the books of the Organization as the funds were originally donated to the Organization. The amounts are recorded at fair value at June 30, 2019 and 2018. The balances were as follows at June 30:

2019				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Beneficial interest in assets held by others	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 155,340</u>	<u>\$ 155,340</u>
2018				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Beneficial interest in assets held by others	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 153,558</u>	<u>\$ 153,558</u>

NOTE D - IN-KIND CONTRIBUTIONS

Many individuals volunteer their time and perform a variety of tasks that assist the Organization in its program services, thrift shop, and fundraising campaigns. No dollar value has been assigned to these contributions because the criteria for recognition of such volunteer efforts have not been satisfied and, therefore, these contributions are not reflected in the accompanying consolidated financial statements. During the years ended June 30, 2019 and 2018, the Organization received approximately 48,500 and 38,820 volunteer hours, respectively. In-kind contributions include contributed services that are considered specialized and that the Organization would have purchased if not donated; therefore, meeting the criteria for recognition. For the years ended June 30, 2019 and 2018, donated services were valued at \$31,538 and \$50,286, respectively.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE E - PLEDGES RECEIVABLE, NET

Pledges receivable, net, at June 30, 2019 and 2018 are reflected at present value of estimated cash flows using a discount rate of 3.98% for 2019 and 2018, as follows:

	<u>2019</u>	<u>2018</u>
Pledges receivable	\$ 1,788,058	\$ 5,729,300
Less: discount to net present value	(61,208)	(45,368)
Less: allowance for doubtful accounts	(289,286)	(299,873)
TOTAL PLEDGES RECEIVABLE, NET	<u>\$ 1,437,564</u>	<u>\$ 5,384,059</u>

Pledges receivable, net are scheduled to be received as follows at June 30:

	<u>2019</u>	<u>2018</u>
1 year or less	\$ 561,155	\$ 4,506,540
2 to 5 years	1,226,903	1,222,760
TOTAL PLEDGES RECEIVABLE	<u>\$ 1,788,058</u>	<u>\$ 5,729,300</u>

NOTE F - INVESTMENTS

Investments are comprised of the following at June 30:

	<u>2019</u>	
	<u>Cost</u>	<u>Market</u>
Equity securities	\$ 863,821	\$ 1,000,342
Fixed income securities	360,682	365,891
TOTAL INVESTMENTS	<u>\$ 1,224,503</u>	<u>\$ 1,366,233</u>

	<u>2018</u>	
	<u>Cost</u>	<u>Market</u>
Equity securities	\$ 812,749	\$ 929,944
Fixed income securities	290,319	280,159
TOTAL INVESTMENTS	<u>\$ 1,103,068</u>	<u>\$ 1,210,103</u>

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE F - INVESTMENTS (CONTINUED)

Investment earnings for the years ended June 30, 2019 and 2018 were comprised of:

	2019	2018
Unrealized gain on investments	\$ 31,644	\$ 2,554
Realized gain on investments	3,759	65,463
Interest and dividend earnings	50,995	34,274
Investment expenses	(14,758)	(8,792)
TOTAL INVESTMENT INCOME	\$ 71,640	\$ 93,499

NOTE G - FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures.

The following table presents the fair value hierarchy for the balances of the assets and liabilities of the Organization measured at fair value on a recurring basis as of June 30, 2019 and 2018:

	2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Equity securities	\$ 1,000,342	\$ 0	\$ 0	\$ 1,000,342
Fixed income securities	0	365,891	0	365,891
Beneficial interest in assets held by others	0	0	155,340	155,340
TOTAL	\$ 1,000,342	\$ 365,891	\$ 155,340	\$ 1,521,573
Liabilities:				
Annuity obligations	\$ 0	\$ 0	\$ 277,692	\$ 277,692
	2018			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities	\$ 929,944	\$ 0	\$ 0	\$ 929,944
Fixed income securities	0	280,159	0	280,159
Beneficial interest in assets held by others	0	0	153,558	153,558
TOTAL	\$ 929,944	\$ 280,159	\$ 153,558	\$ 1,363,661

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE G - FAIR VALUE MEASUREMENT (CONTINUED)

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Balance - beginning of year	\$ 153,558	\$ 0
Change in value of beneficial interest agreement	1,782	153,558
Balance - end of year	<u>\$ 155,340</u>	<u>\$ 153,558</u>

Beneficial interest in assets held by others is measured at fair value with a valuation technique utilizing market prices at the close of the last business day for the statement period, provided by Community Foundation of Collier County.

NOTE H - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, at June 30, 2019 and 2018, consists of the following:

	<u>2019</u>	<u>2018</u>
Buildings	\$ 17,870,356	\$ 15,049,972
Land	11,248,579	8,798,579
Equipment and furniture	1,741,397	1,509,990
Vehicles	824,561	785,993
Leasehold improvements (net of impairment)	2,942,924	2,828,234
Construction in progress	1,638,252	379,628
	<u>36,266,069</u>	<u>29,352,396</u>
Less accumulated depreciation	7,122,879	6,204,035
NET PROPERTY AND EQUIPMENT	<u>\$ 29,143,190</u>	<u>\$ 23,148,361</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$932,935 and \$817,416, respectively.

NOTE I - ANNUITY OBLIGATION

During the year, the Organization received a property donation in exchange for an irrevocable gift annuity. The annuity agreements provide that the Organization will pay the annuitant an amount each year based on the established life expectancy of the donor. The recorded annuity obligation at June 30, 2019, of \$277,692 represents the present value of future cash flows expected to be paid to the donor. Payments to beneficiaries for the year ended June 30, 2019 totaled \$47,274.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE J - LINE OF CREDIT

As of June 30, 2019 and 2018, the Organization has a line of credit in the amount of \$1,500,000, due on demand and collateralized by all business assets, carrying a fixed interest rate of 4.61% and 4.25%, respectively. The Organization did not have a balance on the line of credit at June 30, 2019 and 2018.

NOTE K CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Capital lease obligation, maturing May 2021		
monthly payments of \$475	\$ 12,980	\$ 16,876
Capital lease obligation, maturing March 2022		
monthly payments of \$1,166	38,491	51,321
Capital lease obligation, maturing June 2022		
monthly payments of \$1,395	38,885	51,922
Capital lease obligation, maturing October 2022		
monthly payments of \$416	15,759	18,467
Capital lease obligation, maturing July 2023		
monthly payments of \$928	40,306	0
Capital lease obligation, maturing October 2022		
monthly payments of \$683	29,675	0
Capital lease obligation, maturing Septemeber 2023		
monthly payments of \$450	20,229	0
TOTAL CAPITAL LEASES	<u>\$ 196,325</u>	<u>\$ 138,586</u>

Minimum future lease payments are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2020	\$ 65,579
2021	65,175
2022	59,470
2023	28,067
2024	2,278
Total minimum lease payments	220,569
Less: amount representing interest	24,244
Capital lease obligation	<u>\$ 196,325</u>

The equipment is recorded in property and equipment at June 30, 2019 and 2018 at \$291,434 and \$314,237, with accumulated depreciation of \$84,918 and \$60,473, respectively.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE L - LONG-TERM DEBT

Long-term debt as of June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Mortgage notes payable to financial institution, secured by land, building, and assignment of leases and rents, monthly payments of principal and interest at 3.15% with a maturity date on May 10, 2023; at which time the balance will be due in the form of a balloon payment.	\$ 1,391,701	\$ 1,453,815
Note payable to financial institution, secured by equipment, annual payments of \$32,725, stated interest at 9.869%, maturing in August 2022.	112,670	132,393
TOTAL NOTES PAYABLE	1,504,371	1,586,208
Less unamortized debt issuance costs	21,577	27,086
	1,482,794	1,559,122
Less current maturities	89,530	89,350
TOTAL LONG-TERM DEBT	<u>\$ 1,393,264</u>	<u>\$ 1,469,772</u>

Aggregate future principal payments on long-term debt are due as follows at June 30, 2019:

<u>Year Ending June 30</u>	<u>Amount</u>
2020	\$ 89,530
2021	94,264
2022	99,200
2023	73,267
2024	72,751
Thereafter	1,075,359
TOTAL	<u>\$ 1,504,371</u>

Interest expense for the years ended June 30, 2019 and 2018 totaled \$84,428 and \$67,957, respectively.

The note payable to the financial institution is subject to certain covenants as defined in the loan agreement. Management believes the Organization was in compliance with all covenants as of June 30, 2019.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE M - DESIGNATED NET ASSETS

Designated net assets consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Board -designated net assets for St. Matthew's House Operations	\$ 1,689,315	\$ 1,746,245
Board - designated for SMH Foundation	230,071	241,206
TOTAL DESIGNATED NET ASSETS	<u>\$ 1,919,386</u>	<u>\$ 1,987,451</u>

NOTE N - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods. Net assets with donor restrictions consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Subject to passage of time:		
For periods after June 30, 2019		
unconditional promises to give, net	\$ 1,437,565	\$ 5,384,059
Subject to expenditure for specific purpose:		
Capital campaign	250,000	747,458
Main shelter capital campaign	0	121,437
Women's recovery	16,404	25,000
Improvements and operating costs for 4330 building	283,974	287,527
Intensive out-patient program	0	180,000
Shelters	16,739	6,000
Hurricane Irma relief	0	11,553
Other small purpose	1,024	119,276
Subtotal	<u>568,141</u>	<u>1,498,251</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 2,005,706</u>	<u>\$ 6,882,310</u>

Net assets with donor restrictions released from donor-imposed restrictions for the years ended June 30, 2019 and 2018 totaled \$6,641,174 and \$2,693,021, respectively.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE O - GRANT REVENUE

During the years ended June 30, 2019 and 2018, the Organization recognized grant revenue for the following purposes:

	<u>2019</u>	<u>2018</u>
Operating grants	\$ 27,500	\$ 12,001
Supporting housing grants	87,500	448,608
Child nutrition	51,569	37,819
TOTALS	<u>\$ 166,569</u>	<u>\$ 498,428</u>

NOTE P - DEFINED CONTRIBUTION RETIREMENT PLAN

The Organization has a 401(k) plan eligible to all employees, regardless of years of service, who are at least 18 years of age. The plan allows eligible employees to elect to defer up to 25% of the employee's compensation, with matching contributions made by the Organization. The Organization presently matches 3% of eligible employee compensation.

The 401(k) contribution expense was \$72,842 and \$76,178 for the years ended June 30, 2019 and 2018, respectively.

NOTE Q - COMMITMENTS AND CONTINGENCIES

The Organization has entered into certain noncancelable operating leases for building and equipment rentals. The future minimum lease payments under these leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2020	\$ 60,920
2021	60,920
2022	43,868
2023	17,557
TOTAL LEASE COMMITMENTS	<u>\$ 183,265</u>

Lease expense for the years ended June 30, 2019 and 2018 totaled \$124,972 and \$255,408, respectively.

NOTE R - RELATED PARTY TRANSACTIONS

As of June 30, 2019 and 2018, the Organization had \$256,610 and \$330,226, respectively, of pledges receivable, net, due from board members and employees of the Organization.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2019 and 2018

NOTE S - DONATED LAND AND BUILDING AND DEED RESTRICTIONS

During the year ended June 30, 2017, the Organization received a donation of land and building in Naples. The donated property is valued at approximately \$3.1 million. The donated property had an outstanding mortgage, for which another donor donated the funds to enable the Organization to pay off the mortgage.

In conjunction with this donation, the donor requested that deed restrictions be placed upon the property. The board of directors and management agreed to these deed restrictions. The restrictions are as such: the Organization cannot abandon the property from its intended use for more than 30 days; cannot attempt to sell or mortgage the property; cannot discontinue its present mission; cannot fail to timely correct within 30 days of notice from the donor for a failure of adherence to the terms of the agreement; cannot be dissolved under state law. If the restrictions are violated, then the Organization must transfer the property to another charity as designated by the donor. Management believes the restrictions imposed are not contrary to the Organization's mission, and has a high level of confidence that such restrictions have a very low probability of being violated