

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

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019



CONTENTS

Page

INDEPENDENT AUDITOR’S REPORT	1-2
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FINANCIAL STATEMENTS

Consolidated Statements of Financial Position	3-4
Consolidated Statements of Activities and Changes in Net Assets	5
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows.....	7-8
Notes to Consolidated Financial Statements	9-23



November 10, 2020

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 statements of St. Matthew's House, Inc. and Affiliates (the Organization), which comprise the consolidated statement of financial position as of June 30, 2020, 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, 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.

Report on Summarized Comparative Information

We have previously audited the St. Matthew's House, Inc. and Affiliates consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 4, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Hill, Barth & King LLC

Certified Public Accountants

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

ASSETS

<u>CURRENT ASSETS</u>	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,011,716	\$ 1,172,751
Accounts receivable	153,219	122,790
Grants receivable	22,034	9,747
Investment in marketable securities - NOTE F	1,390,844	1,366,233
Inventory	523,552	222,440
Pledges receivable, net - current portion - NOTE E	318,349	561,155
Prepaid expenses	225,033	210,032
Beneficial interest in assets held by others - NOTE G	163,728	155,340
Other assets	70,542	26,185
TOTAL CURRENT ASSETS	<u>6,879,017</u>	<u>3,846,673</u>
 <u>PLEDGES RECEIVABLE, NET - LESS</u>		
<u>CURRENT PORTION - NOTE E</u>	358,949	876,409
 <u>PROPERTY AND EQUIPMENT, NET - NOTE H</u>	<u>33,782,543</u>	<u>29,143,190</u>
TOTAL ASSETS	<u>\$ 41,020,509</u>	<u>\$ 33,866,272</u>

See accompanying notes to consolidated financial statements

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

June 30, 2020 and 2019

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>	<u>2020</u>	<u>2019</u>
Accounts payable and accrued expenses	\$ 1,488,232	\$ 1,022,856
Resident's deposits	13,207	12,607
Current portion of gift annuities payable - NOTES G AND I	73,298	71,397
Current portion of capital lease obligations - NOTE K	59,500	56,278
Current portion of long-term debt - NOTE L	118,460	89,530
TOTAL CURRENT LIABILITIES	<u>1,752,697</u>	<u>1,252,668</u>
 <u>LONG-TERM LIABILITIES</u>		
Gift annuities payable less current portion - NOTES G AND I	132,518	206,295
Capital lease obligations less current portion - NOTE K	82,242	140,047
Long-term debt less current portion - NOTE L	3,343,249	1,393,264
TOTAL LONG-TERM LIABILITIES	<u>3,558,009</u>	<u>1,739,606</u>
TOTAL LIABILITIES	<u>5,310,706</u>	<u>2,992,274</u>
 <u>NET ASSETS</u>		
Without donor restrictions:		
Undesignated	4,244,377	3,202,347
Designated by board - NOTE O	1,813,828	1,919,386
Invested in property and equipment	23,825,465	23,746,559
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>29,883,670</u>	<u>28,868,292</u>
With donor restrictions:		
Purpose restrictions - NOTE P	5,148,835	568,141
Time restricted for future periods - NOTE P	677,298	1,437,565
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>5,826,133</u>	<u>2,005,706</u>
TOTAL NET ASSETS	<u>35,709,803</u>	<u>30,873,998</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 41,020,509</u>	<u>\$ 33,866,272</u>

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, 2020
(with summarized comparative totals for the year ended June 30, 2019)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTALS	
			2020	2019
SUPPORT				
Contributions - general	\$ 6,676,817	\$ 0	\$ 6,676,817	\$ 5,063,167
Contributions - capital campaigns	0	4,719,425	4,719,425	795,024
Grants - NOTE Q	251,497	89,000	340,497	166,569
Donated property	0	0	0	972,436
In-kind contributions	8,214,367	0	8,214,367	572,319
Special events - net of related costs	474,664	0	474,664	437,697
TOTAL SUPPORT	15,617,345	4,808,425	20,425,770	8,007,212
REVENUE				
Thrift shop revenue	6,726,786	0	6,726,786	7,262,733
Thrift café	103,982	0	103,982	179,430
Catering services	206,743	0	206,743	378,344
Rental income	654,160	0	654,160	559,695
Program services	537,041	0	537,041	624,119
Investment income	57,525	0	57,525	71,640
Other income	218,744	0	218,744	144,974
TOTAL REVENUE	8,504,981	0	8,504,981	9,220,935
Net assets released from restrictions	987,998	(987,998)	0	0
TOTAL SUPPORT AND REVENUE	25,110,324	3,820,427	28,930,751	17,228,147
EXPENSES				
Program services	13,820,904	0	13,820,904	6,687,230
Management and general	1,649,497	0	1,649,497	1,490,575
Fundraising	1,994,643	0	1,994,643	1,739,892
TOTAL OPERATING EXPENSES	17,465,044	0	17,465,044	9,917,697
Thrift shop, car wash, and cafes	5,690,571	0	5,690,571	5,813,826
Foundation	61	0	61	11,440
Properties	254,629	0	254,629	270,372
Oxbow Hospitality	682,977	0	682,977	767,391
Breeze of Calusa	1,664	0	1,664	0
TOTAL EXPENSES	24,094,946	0	24,094,946	16,780,726
CHANGES IN NET ASSETS	1,015,378	3,820,427	4,835,805	447,421
NET ASSETS				
Beginning of year	28,868,292	2,005,706	30,873,998	30,426,577
End of year	\$ 29,883,670	\$ 5,826,133	\$ 35,709,803	\$ 30,873,998

See accompanying notes to consolidated financial statements

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Year ended June 30, 2020

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

	PROGRAM SERVICES	SUPPORTING SERVICES			FUNDRAISING	FOUNDATION	PROPERTIES	OXBOW HOSPITALITY	BREEZE OF CALUSA	TOTALS	
		MANAGEMENT AND GENERAL	THRIFT SHOP, CAR WASH, AND CAFES	2020						2019	
Advertising	\$ 849	\$ 438	\$ 20,466	\$ 9,347	\$ 0	\$ 0	\$ 0	\$ 0	\$ 31,100	\$ 313,795	
Auto and travel	177,535	5,382	301,523	6,893	0	0	1,167	0	492,500	484,209	
Bad debt expense	75,334	0	5,330	80,997	0	0	105	0	161,766	211,641	
Café expense	0	0	0	0	0	0	0	0	0	880	
Computer and technology	81,312	51,087	49,796	44,775	0	0	1,020	0	227,990	0	
Depreciation and amortization	185,403	375,959	27,668	177,216	0	174,883	13,697	0	954,826	932,935	
Food and vending supplies	106,110	6,290	7,517	51,731	0	0	36,110	0	207,758	421,545	
In-kind food	7,846,671	0	0	0	0	0	0	0	7,846,671	670,000	
Interest	26,631	3,884	73,549	4,573	0	0	728	0	109,365	84,428	
Marketing	0	7,297	12,360	418,556	0	0	0	0	438,213	0	
Occupancy	724,929	89,263	927,347	55,602	0	74,109	240,411	612	2,112,273	1,971,054	
Office expense	319,609	57,914	339,705	112,748	61	155	17,560	1	847,753	965,853	
Other	0	0	111,485	0	0	0	15,185	0	126,670	276,239	
Professional	68,974	45,636	5,192	1,879	0	5,482	0	1,051	128,214	164,165	
Resident/client assistance	266,311	0	21,854	7,050	0	0	0	0	295,215	363,400	
Salaries and benefits	3,941,236	1,006,347	3,786,779	1,023,276	0	0	356,994	0	10,114,632	9,920,582	
TOTAL	\$ 13,820,904	\$ 1,649,497	\$ 5,690,571	\$ 1,994,643	\$ 61	\$ 254,629	\$ 682,977	\$ 1,664	\$ 24,094,946	\$ 16,780,726	

See accompanying notes to consolidated financial statements

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
Changes in net assets	\$ 4,835,805	\$ 447,421
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	954,826	932,935
Bad debt expense	161,766	211,641
In-kind donations	(646,308)	(1,160,336)
(Gain) loss on disposition of property and equipment	(39,895)	3,602
Net appreciation on investments	(3,620)	(33,426)
Realized gain on sale of investments	(21,588)	(3,759)
Change in allowance of uncollectible pledges receivable	(675,697)	(116,258)
Change in net present value discount on pledges receivable	(47,013)	15,840
(Increase) decrease in current assets:		
Accounts receivable	386,411	(155,260)
Pledges receivable	904,370	3,930,654
Grants receivable	(12,287)	1,509
Inventory	(301,112)	124,660
Prepaid expenses	(15,001)	(36,300)
Other assets	(44,357)	(10,235)
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses, resident's deposits and deferred revenue	465,976	124,300
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>5,902,276</u>	<u>4,276,988</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of property and equipment	(5,551,775)	(5,628,453)
Proceeds from sale of property and equipment	3,000	0
Purchase of investments	(1,257,423)	(972,997)
Proceeds from sale of investments	1,895,940	1,040,593
NET CASH USED IN INVESTING ACTIVITIES	<u>(4,910,258)</u>	<u>(5,560,857)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Borrowing from line of credit	2,043,054	1,075,000
Payments on line of credit	(2,043,054)	(1,075,000)
Payments to beneficiaries of split interest agreement	(71,876)	(47,274)
Principal payments on long-term debt	(147,438)	(80,126)
Principal payments on capital lease obligations	(57,053)	(52,669)
Proceeds from issuance of long-term debt	2,123,314	0
Proceeds from capital lease obligation	0	108,697
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>1,846,947</u>	<u>(71,372)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,838,965	(1,355,241)

See accompanying notes to consolidated financial statements

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of year	<u>\$ 1,172,751</u>	<u>\$ 2,527,992</u>
End of year	<u>\$ 4,011,716</u>	<u>\$ 1,172,751</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid for interest	<u>\$ 109,365</u>	<u>\$ 84,428</u>
<u>SUPPLEMENTAL DISCLOSURE OF NONCASH</u>		
<u>INVESTING AND FINANCING ACTIVITIES</u>		
Acquisition of equipment from issuance of notes payable	<u>\$ 107,760</u>	<u>\$ 0</u>
Donated land and building	<u>\$ 0</u>	<u>\$ 1,297,405</u>
Acquisition of equipment from issuance of capital lease	<u>\$ 0</u>	<u>\$ 108,697</u>

See accompanying notes to consolidated financial statements

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2020 and 2019

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. (SMH) and its affiliates under common control: St. Matthew's House Foundation, Inc. (SMH Foundation), SMH Properties of Southwest Florida, Inc. (SMH Properties), Oxbow Hospitality, Inc. (Oxbow), and Breeze at Calusa Property Owners' Association Inc (Calusa).

SMH, a nonprofit corporation, was formed in December 1988. The corporation is a faith-based, Christian organization that is organized and operated exclusively for charitable and religious purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986 as amended, and within such purposes, specifically to provide and operate housing and shelter for the homeless, indigent and needy in Southwest Florida without regard to race, age, color, creed, gender or national origin; promote the general social welfare of the communities in which it serves by providing related facilities and social services such as consultation and referrals to those in need of temporary or emergency shelter; assist those who seek to end their addiction to drugs and alcohol; and share the love of God by word and deed and by other community services consistent with the tax-exempt purposes of the corporation and as deemed appropriate by the Board of Directors.

SMH operates 104-bed and 44-bed shelters in Naples and Immokalee, respectively. The operations of SMH also run the "Wolfe Apartments," a 46-unit transitional housing facility in Naples. Correspondingly, SMH 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. SMH 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.

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

SMH Properties, a nonprofit corporation, was formed in October 2011, and is wholly-owned by SMH. The corporation's primary purpose is to advance the mission of SMH. 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.

Oxbow, a for-profit corporation, was formed in April 2014 and is wholly-owned by SMH. The corporation's primary purpose is to advance the mission of SMH. 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 SMH for the Justin's Place Recovery Program residents.

Calusa was formed in April 2014, and is wholly-owned by SMH. The corporation's primary purpose was intended to support the new development being established at Justin's Village, prior to SMH acquiring the property. Only one original homeowner still resides in the development; which is enforced by the property owners' bylaws.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation:

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

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.

Adopted Accounting Pronouncements:

On June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this standard include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improved guidance to better distinguish between conditional and unconditional contributions.

The Organization adopted this standard prospectively for contributions received for the fiscal year ended June 30, 2020. Based on the Organization's review of its grants and contracts, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard. The adoption of this standard had no impact on the consolidated statements of financial position and the statements of activities and changes in net assets.

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:

SMH, SMH Foundation, and SMH Properties are exempt from income taxes under the provisions of Internal Revenue Code (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.

Calusa is a homeowners association that is not exempt under the provisions of Code Section 501(c)(4) and has elected under the provisions of Code section 528 to receive certain tax benefits that, in effect, permit it to exclude its exempt function from its gross income. 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, 2020 and 2019, there are no deferred tax assets or liabilities and there is no current income tax payable.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued):

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.

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. The potential risk is limited to the amounts recorded in the consolidated financial statements. 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.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued):

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, 2020 and 2019.

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.

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 with donor restrictions 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.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 November 10, 2020 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.

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 less portion restricted for capital additions	\$ 3,074,941
Accounts receivable	153,219
Investment in marketable securities	1,390,844
Pledges receivable - current portion less portion restricted for capital additions	297,294
TOTAL CURRENT ASSETS AVAILABLE FOR GENERAL USE	<u>\$ 4,916,298</u>

The cash and cash equivalents include approximately \$937,000 of cash restricted for capital additions. The current pledges receivable include \$21,055 restricted by the donor for capital additions.

NOTE C - 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.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE C - DONATED LAND AND BUILDING AND DEED RESTRICTIONS (CONTINUED)

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.

NOTE D - DONATED SERVICES

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, 2020 and 2019, the Organization received approximately 43,504 and 48,500 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, 2020 and 2019, donated services were valued at \$62,446 and \$31,538, respectively.

NOTE E - PLEDGES RECEIVABLE, NET

Pledges receivable, net, at June 30, 2020 and 2019 are reflected at present value of estimated cash flows using a discount rate of 1.31% and 3.98% for 2020 and 2019, respectively, as follows:

	2020	2019
Pledges receivable	\$ 883,688	\$ 1,788,058
Less: discount to net present value	(14,195)	(61,208)
Less: allowance for doubtful accounts	(192,195)	(289,286)
TOTAL PLEDGES RECEIVABLE, NET	<u>\$ 677,298</u>	<u>\$ 1,437,564</u>

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

	2020	2019
1 year or less	\$ 297,294	\$ 561,155
2 to 5 years	586,394	1,226,903
TOTAL PLEDGES RECEIVABLE	<u>\$ 883,688</u>	<u>\$ 1,788,058</u>

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE F - INVESTMENTS

Investments are comprised of the following at June 30:

		2020	
		Cost	Market
Equity securities		\$ 885,201	\$ 1,008,159
Fixed income securities		365,720	382,685
TOTAL INVESTMENTS		<u>\$ 1,250,921</u>	<u>\$ 1,390,844</u>

		2019	
		Cost	Market
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>

Investment earnings for the years ended June 30, 2020 and 2019 were comprised of:

	2020	2019
Unrealized gain on investments	\$ 4,020	\$ 31,644
Realized gain on investments	28,097	3,759
Interest and dividend earnings	39,462	50,995
Investment expenses	(14,054)	(14,758)
TOTAL INVESTMENT INCOME	<u>\$ 57,525</u>	<u>\$ 71,640</u>

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 beneficial interest in assts held by others consists of funds transferred from the Organization 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. These funds are 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.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE G - FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2020 and 2019:

2020				
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Equity securities	\$ 1,008,159	\$ 0	\$ 0	\$ 1,008,159
Fixed income securities	0	382,685	0	382,685
Beneficial interest in assets held by others	0	0	163,728	163,728
TOTAL	\$ 1,008,159	\$ 382,685	\$ 163,728	\$ 1,554,572
Liabilities:				
Annuity obligations	\$ 0	\$ 0	\$ 205,816	\$ 205,816
2019				
	Level 1	Level 2	Level 3	Total
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

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:

	2020	2019
Balance - beginning of year	\$ 155,340	\$ 153,558
Change in value of beneficial interest agreement	8,388	1,782
Balance - end of year	\$ 163,728	\$ 155,340

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE H - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, at June 30, 2020 and 2019, consists of the following:

	2020	2019
Buildings	\$ 18,353,431	\$ 17,870,356
Land	11,681,642	11,248,579
Equipment and furniture	2,216,836	1,741,397
Vehicles	814,561	824,561
Leasehold improvements (net of impairment)	3,327,878	2,942,924
Construction in progress	5,413,348	1,638,252
	41,807,696	36,266,069
Less accumulated depreciation and amortization	8,025,153	7,122,879
NET PROPERTY AND EQUIPMENT	<u>\$ 33,782,543</u>	<u>\$ 29,143,190</u>

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was \$954,826 and \$932,935, respectively.

NOTE I - ANNUITY OBLIGATION

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, 2020 and 2019, of \$205,816 and \$277,692, represents the present value of future cash flows expected to be paid to the donor, respectively. Payments to beneficiaries for the years ended June 30, 2020 and 2019 totaled \$71,876 and \$47,274, respectively.

NOTE J - LINE OF CREDIT

As of June 30, 2020 and 2019, 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, 2020 and 2019.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE K - CAPITAL LEASE OBLIGATIONS

Capital lease obligations as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Capital lease obligation, maturing May 2021		
monthly payments of \$475	\$ 5,271	\$ 12,980
Capital lease obligation, maturing March 2022		
monthly payments of \$1,166	24,494	38,491
Capital lease obligation, maturing June 2022		
monthly payments of \$1,395	29,709	38,885
Capital lease obligation, maturing October 2022		
monthly payments of \$416	11,204	15,759
Capital lease obligation, maturing July 2023		
monthly payments of \$928	31,760	40,306
Capital lease obligation, maturing October 2022		
monthly payments of \$683	23,383	29,675
Capital lease obligation, maturing September 2023		
monthly payments of \$450	15,921	20,229
TOTAL CAPITAL LEASES	<u>\$ 141,742</u>	<u>\$ 196,325</u>

Minimum future lease payments are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2021	\$ 76,171
2022	59,470
2023	28,067
2024	2,278
Total minimum lease payments	165,986
Less: amount representing interest	24,244
Capital lease obligation	<u>\$ 141,742</u>

The equipment is recorded in property and equipment at June 30, 2020 and 2019 at \$291,434, with accumulated depreciation of \$135,706 and \$84,918, respectively.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE L - LONG-TERM DEBT

Long-term debt as of June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</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.	\$ 1,350,750	\$ 1,391,701
Note payable to financial institution, secured by equipment, annual payments of \$32,725, stated interest at 9.869%, maturing in August 2022.	61,622	112,670
Note payable to financial institution, secured by equipment, quarterly payments of \$7,517, stated interest at 5.40%, maturing in August 2023.	82,905	0
SBA Paycheck Protection Program note payable to financial institution stated interest at 1%, maturing in April 2022.	2,015,554	0
	3,510,831	1,504,371
Less unamortized debt issuance costs	49,122	21,577
	3,461,709	1,482,794
Less current maturities	118,460	89,530
TOTAL LONG-TERM DEBT	<u>\$ 3,343,249</u>	<u>\$ 1,393,264</u>

Aggregate future principal payments on long-term debt are due as follows at June 30, 2020:

<u>Year Ending June 30</u>	<u>Amount</u>
2021	\$ 118,460
2022	2,142,364
2023	102,366
2024	72,789
2025	75,183
Thereafter	999,669
TOTAL	<u>\$ 3,510,831</u>

Interest expense for the years ended June 30, 2020 and 2019 totaled \$109,365 and \$84,428, respectively.

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE L - LONG-TERM DEBT (CONTINUED)

The notes payable to the financial institutions are subject to certain covenants as defined in the loan agreements. Management believes the Organization was in compliance with all covenants as of June 30, 2020.

On April 1, 2020, the Organization received loan proceeds in the amount of approximately \$2,015,554 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight or twenty-four weeks at the borrower's choice as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments until the date the lender receives the applicable forgiven amount from the Small Business Administration (SBA). The Organization intends to use the proceeds for purposes consistent with the PPP and currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan.

NOTE M - 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 \$104,208 and \$72,842 for the years ended June 30, 2020 and 2019, respectively.

NOTE N - RELATED PARTY TRANSACTIONS

As of June 30, 2020 and 2019, the Organization had \$101,275 and \$256,610, respectively, of pledges receivable, net, due from board members and employees of the Organization.

NOTE O - DESIGNATED NET ASSETS

Designated net assets consist of the following at June 30:

	2020	2019
Board - designated net assets for St. Matthew's House Operations	\$ 1,583,818	\$ 1,689,315
Board - designated for SMH Foundation	230,010	230,071
TOTAL DESIGNATED NET ASSETS	<u>\$ 1,813,828</u>	<u>\$ 1,919,386</u>

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE P - 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>2020</u>	<u>2019</u>
Subject to passage of time:		
For periods after June 30, 2020		
unconditional promises to give, net	\$ 677,298	\$ 1,437,565
Subject to expenditure for specific purpose:		
Capital campaign	4,261,545	250,000
Main shelter capital campaign	624,509	0
Women's recovery	24,710	16,404
Improvements and operating costs for 4330 building	0	283,974
Shelters	94,200	16,739
Scott's Garden	75,000	0
Other small purpose	68,871	1,024
TOTAL SUBJECT TO EXPENDITURE	<u>5,148,835</u>	<u>568,141</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 5,826,133</u>	<u>\$ 2,005,706</u>

Net assets with donor restrictions released from donor-imposed restrictions for the years ended June 30, 2020 and 2019 totaled \$987,998 and \$6,641,174, respectively.

NOTE Q - GRANT REVENUE

During the years ended June 30, 2020 and 2019, the Organization recognized grant revenue for the following purposes:

	<u>2020</u>	<u>2019</u>
Operating grants	\$ 203,714	\$ 27,500
Supporting housing grants	89,000	87,500
Child nutrition	47,783	51,569
TOTALS	<u>\$ 340,497</u>	<u>\$ 166,569</u>

ST. MATTHEW'S HOUSE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020 and 2019

NOTE R - 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>
2021	\$ 128,543
2022	128,823
2023	128,823
2024	128,823
2025	127,983
Thereafter	247,846
TOTAL LEASE COMMITMENTS	<u>\$ 890,841</u>

Lease expense for the years ended June 30, 2020 and 2019 totaled \$164,332 and \$124,972, respectively.

NOTE S - COVID-19

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, and it unfortunately continues to spread. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, have been severely impacted, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. On April 1st, Gov. Ron DeSantis ordered all Floridians to stay at home, to lock down the state in the fight against the coronavirus. Social Enterprises (Thrift Stores, Café’s, Catering, Fund Raising events) were closed and cancelled due to COVID-19. Additional costs associated with COVID-19 include the purchase of PPE and doing a “deep clean” across all of the SMH’s facilities.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020-21.