

**LAZARUS HOUSE, INC.**

**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
MARCH 31, 2018 AND 2017**

**LAZARUS HOUSE, INC.  
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MARCH 31, 2018 AND 2017**

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# NAFFAH & COMPANY<sup>PC</sup>

Certified Public Accountants and Consultants

30 Massachusetts Avenue, Suite 300 • North Andover, MA 01845

Douglas L. Naffah, C.P.A.  
Mary Ellen Costello, C.P.A.  
Marilyn A. Censullo, C.P.A.

Tel: 978.685.8540  
Fax: 978.685.8740

To the Board of Directors  
Lazarus House, Inc.  
Lawrence, Massachusetts 01842

## **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of Lazarus House, Inc. (a non-profit organization), which comprise the statements of financial position as of March 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lazarus House, Inc., as of March 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Raffahr + Company, P.C.*

North Andover, Massachusetts

September 25, 2018

**LAZARUS HOUSE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**MARCH 31, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash (Note 2)	\$ 2,504,014	\$ 2,892,729
Accounts receivable, net (Note 3)	41,879	33,688
Pledges receivable, current portion (Note 19)	-	11,350
Grants receivable	13,000	-
Prepaid expenses	<u>62,448</u>	<u>55,296</u>
Total Current Assets	<u>2,621,341</u>	<u>2,993,063</u>
<b>PROPERTY AND EQUIPMENT</b>		
Net of accumulated depreciation of \$2,378,824 and \$2,226,070 in 2017 and 2016, respectively (Note 6)	<u>1,732,774</u>	<u>1,843,717</u>
<b>OTHER ASSETS</b>		
Pledges receivable, long term portion (Note 19)	-	910
Investment in Capernaum Place, net (Note 4)	<u>768,941</u>	<u>768,941</u>
Total Other Assets	<u>768,941</u>	<u>769,851</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 5,123,056</u></u>	<u><u>\$ 5,606,631</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,764	\$ 685
Accrued expenses	65,436	55,225
Unearned revenue (Note 12)	<u>126,162</u>	<u>108,512</u>
Total Liabilities	<u>194,362</u>	<u>164,422</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	2,563,169	2,718,593
Board designated (Note 8)	<u>2,058,777</u>	<u>2,466,868</u>
Total unrestricted net assets	4,621,946	5,185,461
Temporarily restricted (Note 7)	<u>306,748</u>	<u>256,748</u>
Total Net Assets	<u>4,928,694</u>	<u>5,442,209</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 5,123,056</u></u>	<u><u>\$ 5,606,631</u></u>

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

**LAZARUS HOUSE, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2018**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED MARCH 31, 2017)**

	Unrestricted	Temporarily Restricted	Total 2018	Total 2017
<b>SUPPORT AND REVENUES</b>				
Donations and grants	\$ 2,100,589	\$ 456,044	\$ 2,556,633	\$ 2,196,729
Special events (Note 18)	814,200	-	814,200	743,409
Thrift shop sales	435,102	-	435,102	442,199
Work preparation training (Note 11)	264,458	-	264,458	234,331
Other program revenue	8,180	-	8,180	-
In-kind contributions (Note 9)	4,630,276	-	4,630,276	4,418,290
Interest and dividend income	10,204	-	10,204	19,554
Gain (loss) on sale of securities	6	-	6	(456)
Write-offs of uncollectible pledges receivable	(2,910)	-	(2,910)	(94,925)
Net assets released from restrictions (Note 7)	406,044	(406,044)	-	-
<b>Total Support and Revenues</b>	<u>8,666,149</u>	<u>50,000</u>	<u>8,716,149</u>	<u>7,959,131</u>
<b>EXPENSES</b>				
Program services	7,646,213	-	7,646,213	7,278,536
Management and general	543,452	-	543,452	621,297
Fundraising	1,039,999	-	1,039,999	886,280
<b>Total Expenses</b>	<u>9,229,664</u>	<u>-</u>	<u>9,229,664</u>	<u>8,786,113</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(563,515)	50,000	(513,515)	(826,982)
<b>NET ASSETS - BEGINNING</b>	<u>5,185,461</u>	<u>256,748</u>	<u>5,442,209</u>	<u>6,269,191</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 4,621,946</u>	<u>\$ 306,748</u>	<u>\$ 4,928,694</u>	<u>\$ 5,442,209</u>

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

**LAZARUS HOUSE, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2017**

	Unrestricted	Temporarily Restricted	Total 2017
<b>SUPPORT AND REVENUES</b>			
Donations and grants	\$ 1,535,640	\$ 661,089	\$ 2,196,729
Special events (Note 18)	743,409	-	743,409
Thrift shop sales	442,199	-	442,199
Work preparation training (Note 11)	234,331	-	234,331
In-kind contributions (Note 9)	4,418,290	-	4,418,290
Interest and dividend income	19,554	-	19,554
Gain (loss) on sale of securities	(456)	-	(456)
Write-offs of uncollectible pledges receivable	(94,925)	-	(94,925)
Net assets released from restrictions (Note 7)	661,089	(661,089)	-
	<u>7,959,131</u>	<u>-</u>	<u>7,959,131</u>
<b>EXPENSES</b>			
Program services	7,278,536	-	7,278,536
Management and general	621,297	-	621,297
Fundraising	886,280	-	886,280
	<u>8,786,113</u>	<u>-</u>	<u>8,786,113</u>
	(826,982)	-	(826,982)
<b>DECREASE IN NET ASSETS</b>			
<b>NET ASSETS - BEGINNING</b>	<u>6,012,443</u>	<u>256,748</u>	<u>6,269,191</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 5,185,461</u>	<u>\$ 256,748</u>	<u>\$ 5,442,209</u>

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

**LAZARUS HOUSE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	Program Services	Management and General	Fund Raising	Total
Salaries and wages	\$ 1,883,852	\$ 322,393	\$ 480,549	\$ 2,686,794
Payroll taxes	159,902	37,561	41,771	239,234
Program expenses	46,051	135	481	46,667
Food	66,112	-	-	66,112
Grants	37,800	-	-	37,800
Insurance	226,211	32,880	71,943	331,034
IT and website support	-	32,263	20,751	53,014
Office supplies	2,432	20,202	3,029	25,663
Other expenses	32,425	13,949	24,219	70,593
Postage and printing	-	1,339	55,251	56,590
Professional fees	440	68,635	123,235	192,310
Rent expense	149,817	-	-	149,817
Repairs and maintenance	129,830	5,602	2,052	137,484
Special events	-	-	202,191	202,191
Telephone	9,308	-	1,978	11,286
Temporary labor service	21,391	-	-	21,391
Utilities	98,396	8,434	12,370	119,200
Vehicle expense	24,934	59	179	25,172
Depreciation	152,754	-	-	152,754
In-kind expenses	<u>4,604,558</u>	<u>-</u>	<u>-</u>	<u>4,604,558</u>
<b>Total</b>	<b><u>\$ 7,646,213</u></b>	<b><u>\$ 543,452</u></b>	<b><u>\$ 1,039,999</u></b>	<b><u>\$ 9,229,664</u></b>

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



**LAZARUS HOUSE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED MARCH 31, 2017**

	Program Services	Management and General	Fund Raising	Total
Salaries and wages	\$ 1,820,042	\$ 391,604	\$ 453,886	\$ 2,665,532
Payroll taxes	163,585	33,573	36,222	233,380
Program expenses	40,432	4,378	280	45,090
Food	51,358	-	-	51,358
Grants	17,154	-	-	17,154
Insurance	196,733	27,877	38,887	263,497
IT and website support	-	32,570	26,774	59,344
Office supplies	5,770	24,954	5,179	35,903
Other expenses	26,854	17,657	16,440	60,951
Postage and printing	3,276	-	49,118	52,394
Professional fees	-	71,539	45,222	116,761
Rent expense	135,695	-	-	135,695
Repairs and maintenance	125,288	8,016	643	133,947
Special events	-	-	199,518	199,518
Telephone	7,284	2,071	1,997	11,352
Temporary labor service	38,847	-	-	38,847
Utilities	90,096	7,058	11,818	108,972
Vehicle expense	26,554	-	296	26,850
Depreciation	159,657	-	-	159,657
In-kind expenses	<u>4,369,911</u>	<u>-</u>	<u>-</u>	<u>4,369,911</u>
Total	<u>\$ 7,278,536</u>	<u>\$ 621,297</u>	<u>\$ 886,280</u>	<u>\$ 8,786,113</u>

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

**LAZARUS HOUSE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MARCH 31, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (513,515)	\$ (826,982)
Adjustments required to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	152,754	159,657
Write-offs of uncollectible pledges receivable	2,910	94,925
(Increase) decrease in accounts receivable	(11,101)	(73,572)
(Increase) decrease in pledges receivable	12,260	124,690
(Increase) decrease in grants receivable	(13,000)	-
(Increase) decrease in prepaid expenses	(7,152)	(9,136)
Increase (decrease) in accounts payable and accrued expenses	12,290	(97,682)
Increase (decrease) in unearned revenue	17,650	29,723
Total Adjustments	<u>166,611</u>	<u>228,605</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>(346,904)</u>	<u>(598,377)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures for property and equipment	<u>(41,811)</u>	<u>(14,860)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(41,811)</u>	<u>(14,860)</u>
<b>DECREASE IN CASH AND EQUIVALENTS</b>	(388,715)	(613,237)
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<u>2,892,729</u>	<u>3,505,966</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u><u>\$ 2,504,014</u></u>	<u><u>\$ 2,892,729</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ <u>-</u>	\$ <u>-</u>
Cash paid during the year for taxes	\$ <u>-</u>	\$ <u>-</u>

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

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2018 AND 2017

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization**

Lazarus House, Inc. ("the Organization"), based in Lawrence, Massachusetts, was incorporated on May 12, 1982, as a private, charitable, not-for-profit organization. The Organization's mission statement, "Opening Doors out of Poverty", is accomplished by providing disadvantaged individuals and families with temporary and permanent shelter, food, clothing, advocacy, medical care, education, and work preparation programs (Refer to note 11), through Lazarus House shelters, transitional housing, a food pantry, and thrift stores.

Funds are solicited from the general public, businesses, foundations, philanthropies and religious organizations.

**Method of Accounting**

The financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when incurred.

**Cash**

For purpose of the statement of cash flows, the Organization considers all highly liquid investments to be cash. Cash includes checking and savings accounts, money market accounts, and certificates of deposit.

**Marketable Securities**

From time to time, the Organization receives donations of stock securities, which are transferred directly into an investment account, in the Organization's name, maintained by a brokerage firm. The Board of Directors has determined that the Organization's cash flow and cash position would be better served if donated securities are immediately sold by the brokerage firm, and the money held in a money market savings account by the brokerage. This account is included in cash on the statement of financial position. Accordingly, there were no marketable securities at March 31, 2018 and 2017.

**Accounts Receivable**

Customers of *Spark\*L.E. Cleaning Services*, a work preparation program established by the Organization, are billed monthly, and due upon presentation. Substantially all amounts are expected to be collected within one year. An allowance for bad debts has not been established because any uncollected amounts are not considered material. (See also note 11)

**Pledges Receivable**

When a donor has unconditionally promised to contribute funds in future periods, the organization recognizes a contribution measured at the fair value of the pledge receivable. Pledges expected to be collected in future years are reported at realizable value if due within one year and at the present value of the expected future cash flows if due in more than one year.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MARCH 31, 2018 AND 2017

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Property and Equipment**

Property and equipment are carried at cost, and are being depreciated using the straight-line method over the estimated useful lives of the assets, which vary from 3 years to 40 years. Any property or equipment donated to the Organization is carried at the fair-market value of property at the date the donation is received, and depreciated using the same methods and lives as purchased property and equipment.

**Income Tax Status**

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). This IRC section enables the Organization to accept donations which qualify as charitable contributions to the donor. Therefore, no provision is made for federal income taxes in the accompanying financial statements. The Commonwealth of Massachusetts follows Internal Revenue guidance for exemption from income taxes. Accordingly, no provision is made for State income taxes in the accompanying financial statements.

**Uncertain Tax Positions**

Management has determined that the Organization does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Organization's tax returns will not be challenged by the taxing authorities and that the Organization will not be subject to additional tax, penalties, and interest as a result of such challenge. Generally, the Organization's tax returns remain open for three years for tax examination.

**Functional Expense Allocation**

The expenses associated with providing various programs, management and general, and fundraising, have been summarized in the statement of functional expenses. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Use of Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MARCH 31, 2018 AND 2017

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Basis of Financial Statement Presentation**

U.S. generally accepted accounting principles require not-for-profit Organizations to report information regarding its financial position and activities according to three classes of net assets. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations. (See also note 8)

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by action of the Organization and/or passage of time. When a restriction does expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

**Reclassification**

Certain items in the March 31, 2017 financial statements have been reclassified to conform to the 2018 presentation.

**Contributions**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

**Fair Value Measurements**

FASB guidance on fair value measurements defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. The guidance applies to all assets and liabilities that are measured and reported on a fair value basis. The carrying amounts of financial instruments, including cash, accounts receivable, and accounts payable and accrued liabilities, approximate fair value due to the short maturity of these instruments. While the fair value of pledges receivable are not materially different than carrying value, the Organization has chosen to adjust pledges receivable in greater than one year to net present value.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MARCH 31, 2018 AND 2017

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Fair Value of Financial Instruments**

Accounting principles generally accepted in the United States establishes a fair value measurement hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 – Fair value input consists of unadjusted quoted prices in active markets for identical assets, which have the highest priority.

Level 2 – Fair value input consists of observable inputs other than quoted prices for identical assets.

Level 3 – Fair value input consists of unobservable inputs and have the lowest priority.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

**Release of Restrictions**

When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets. Restrictions on contributions of property and equipment (or contributions restricted to the purchase of property and equipment) expire when the asset is placed into service.

2. CASH

Cash includes amounts on deposit in checking accounts, and savings and certificates of deposit, as follows:

	<u>2018</u>	<u>2017</u>
Cash and checking	\$ 106,517	\$ 99,575
Savings and certificates of deposit	<u>2,397,497</u>	<u>2,793,154</u>
Total	\$ <u>2,504,014</u>	\$ <u>2,892,729</u>

3. ACCOUNTS RECEIVABLE

Accounts receivable include amounts due from *Spark\*L.E Cleaning Services* customers (note 11). Also included in accounts receivable are non-interest bearing loans to employees. Total due from employees was \$2,050 and \$1,408, at March 31, 2018 and 2017, respectively.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MARCH 31, 2018 AND 2017

4. INVESTMENT IN CAPERNAUM PLACE

Investment in Capernaum Place consists of amounts disbursed to Lazarus Hope, LLC in 2006 and 2007, in the form of two notes receivable. The funds were used for the construction of a transitional housing project, Capernaum Place, in Lawrence, Massachusetts. The notes receivable have a due date of November 10, 2036.

One note, in the amount of \$187,000, requires annual interest at a rate of 5.15%, the applicable federal rate in effect during the time of the loan disbursements. Interest is to be calculated on the unpaid balance, including any accrued interest. The funds were originally provided by the U.S. Department of Housing and Urban Development (HUD) with the intention that the Organization lend these funds to Lazarus Hope, LLC, for the construction.

The second note, in the amount of \$539,666, consists of amounts disbursed by the Organization during 2006 and 2007 for certain construction expenses. The note requires annual interest at a rate of 5.00%, to be paid on the unpaid balance, including accrued interest. This note is collateralized by property located at 30 Myrtle Street, in Lawrence, Massachusetts.

Management has reviewed the notes receivable and accrued interest thereon of \$470,231 and \$412,809 at March 31, 2018 and 2017, respectively, and determined that an allowance for provision for loan losses be established. While Management does not doubt that the principal will be repaid on both notes, they are uncertain that all of the interest will be collected. Accordingly, the investment is shown net of the provision. The provision for loan losses was \$427,956 and \$370,534 at March 31, 2018 and 2017, respectively.

5. REVOLVING CREDIT LOAN

The Organization has a line-of-credit allowing a maximum borrowing up to \$50,000. The agreement requires monthly payments of interest at the bank's prime rate plus one percent (1%). The rate at March 31, 2018 was 5.75%. The line-of-credit is secured by substantially all of the Organization's assets. There was no outstanding balance on this line-of-credit at March 31, 2018 and 2017.

6. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2018 consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land and buildings	\$ 2,285,360	\$ 1,103,899	\$ 1,181,461
Building improvements	822,540	478,760	343,780
Equipment	672,248	498,810	173,438
Furniture and fixtures	218,942	214,285	4,657
Motor vehicles	<u>112,508</u>	<u>83,070</u>	<u>29,438</u>
Total	<u>\$ 4,111,598</u>	<u>\$ 2,378,824</u>	<u>\$ 1,732,774</u>

**LAZARUS HOUSE, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MARCH 31, 2018 AND 2017**

**6. PROPERTY AND EQUIPMENT (CONTINUED)**

Property and equipment at March 31, 2017 consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land and buildings	\$ 2,285,360	\$ 1,050,044	\$ 1,235,316
Building improvements	796,577	451,182	345,395
Equipment	656,400	455,698	200,702
Furniture and fixtures	218,942	202,443	16,499
Motor vehicles	<u>112,508</u>	<u>66,703</u>	<u>45,805</u>
Total	<u>\$ 4,069,787</u>	<u>\$ 2,226,070</u>	<u>\$ 1,843,717</u>

Depreciation expense was \$152,754 and \$159,657 in fiscal years 2018 and 2017, respectively.

**7. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at March 31 consists of the following:

	<u>2018</u>	<u>2017</u>
Restricted for management expenses, project upkeep and certain other expenses of Capernaum Place	\$ 140,000	\$ 140,000
Restricted by contributors for operations of the dental clinic	78,789	78,789
Restricted by private grants for the Life Skills and other Education Programs	<u>87,959</u>	<u>37,959</u>
Total Temporarily Restricted Net Assets	<u>\$ 306,748</u>	<u>\$ 256,748</u>

During the years ended March 31, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for program services and supplies, and for purchase of certain fixed assets additions. The total amount released from restrictions during 2018 and 2017 was \$406,044 and \$661,089, respectively.

**8. UNRESTRICTED NET ASSETS – BOARD DESIGNATED**

Board designated unrestricted net assets consist of cash balances set aside as directed by the Board of Directors, for certain current and future activities, including expenses related to work preparation or other internal education programs, outside programs to provide clients with higher education opportunities, food and other supplies needed for operation of Lazarus House programs, and maintenance of the Organization's facilities. Funds collected through the Campaign for Dignity have been designated by the board to be included in this category.



LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MARCH 31, 2018 AND 2017

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**9. IN-KIND CONTRIBUTIONS**

The Organization receives contributions of an in-kind nature, which represent the estimated fair market value of donated supplies and services. The value of these contributions, which is included in the statements of activities, is as follows for the years ended March 31:

	<u>2018</u>	<u>2017</u>
Food	\$ 3,465,240	\$ 3,407,745
Professional services	496,895	463,775
Clothes and household items	642,423	498,391
Other goods and services	<u>25,718</u>	<u>48,379</u>
Total	<u>\$ 4,630,276</u>	<u>\$ 4,418,290</u>

**10. DONATED SERVICES**

Professional services included in In-Kind Contributions (note 9) consist of volunteer hours provided by skilled craftsmen and professionals, who would otherwise be paid for their services.

In addition, the Organization received services of a non-professional nature, totaling greater than 48,400 hours in both fiscal years 2018 and 2017, which have not been reflected in these financial statements. The volunteers provided household services, assistance in the food pantry, soup kitchen and thrift stores, and fundraising and other special events services. If a value were assigned to these volunteer hours and services, In-Kind Contributions would be increased by approximately \$630,000 for both fiscal years 2018 and 2017.

**11. EDUCATION AND WORK PREPARATION PROGRAMS**

While the Organization's main purpose is to provide disadvantaged persons with housing, food, clothing, education and other care, Lazarus House is constantly working to assist those persons in becoming independent and securing a better future. To accomplish this, the Organization has established several internal education and work preparation programs.

Education programs include *English as a Second Language* (ESL) classes, to assist people in their endeavor to live and work in the English-speaking community, and continue through high school equivalency programs (GED). Guests are also encouraged to seek higher education.

Work preparation programs include office and industrial cleaning services, through the Organization's *Spark\*L.E. Cleaning Services* business; food safety and preparation, including *ServSafe* certification, through in-house programs taught by local guest chefs; sewing and repairs, taught by an in-house instructor; and resume writing and job interview skills. Some basic computer skills are also taught.

**LAZARUS HOUSE, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MARCH 31, 2018 AND 2017**

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**12. UNEARNED REVENUE**

Unearned revenue at March 31, 2018 and 2017 includes grants received for operation of the dental clinic, which closed in April 2012. In May 2018, the Organization returned \$78,789 in unearned funds to the dental clinic's successor. In 2018, \$47,373 was received from donors in advance of events to be held in fiscal year 2019. Unearned income totaled \$126,162 and \$108,512 in fiscal years 2018 and 2017, respectively.

**13. CASH FLOWS**

Occasionally, the Organization receives donations of marketable securities, which are sent to a brokerage account in the name of the Organization and immediately placed for sale. When the securities are sold, the funds are transferred to a Money Market savings account on deposit with the brokerage. Donations of marketable securities received during fiscal years 2018 and 2017, were valued at \$14,966 and \$4,875, respectively, and are included in support and revenue on the statements of activities.

The Organization received donations of services for building and vehicle repairs and maintenance of \$25,718 and \$48,379 in fiscal years 2018 and 2017, respectively, which is included in in-kind revenues. (See note 9)

**14. RELATED PARTIES**

Lazarus House, Inc. is an owner of seventy-nine percent (79%) of the assets of Lazarus Hope Housing, Inc., ("the Corporation"). The Corporation is a member and General Partner of Lazarus Hope, LLC ("the LLC"), owning one-hundredth of one percent (0.01%) of the LLC. The LLC is the owner of a low-income transitional housing project ("the Project"), named Capernaum Place, which is located at 30 Myrtle Street, in Lawrence, Massachusetts. Lazarus House, Inc. was the Sponsor/Developer of the Project, and is the Sponsor of several notes payable related to the Project. (See also note 4)

The Organization incurred expenses for services and supplies provided by two board members or their families. Additionally, the Organization employs one person who is the daughter of a member of management. The total amount paid for the expenses associated with these services and supplies approximated \$69,732 and \$89,802 for fiscal years 2018 and 2017, respectively. There were no amounts due to or from these related parties at March 31, 2018 and 2017.

One board member is the owner of an insurance company, which provides insurance coverage and related services to Lazarus House, including commercial liability, property, automobile, and workers compensation insurances. Premiums of approximately \$104,000 and \$102,000 were made directly to the insurance carriers, in fiscal years 2018 and 2017, respectively.

**LAZARUS HOUSE, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MARCH 31, 2018 AND 2017**

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**15. CONCENTRATION OF CREDIT RISK**

The Organization places its cash deposits in banks, credit unions, and other accounts at credit-worthy financial institutions. The Organization has not experienced any losses on its cash. At times, bank deposit account balances may exceed the Federal Deposit Insurance Corporation (FDIC) limits. However, some of the Organization's deposits are further insured by Depositors Insurance Fund (DIF) or Securities Investor Protection Corporation (SIPC). Management considers any balance in excess of insured limits to be a normal business risk. Uninsured cash balances totaled \$666,339 at March 31, 2018.

Lazarus House is the guarantor of four notes, given by Lazarus Hope, LLC ("the LLC") to various lenders, on November 10, 2006. The notes vary in amounts from \$550,000 to \$750,000 and total \$2,610,000. This guaranty would require the Organization to make any required loan payments in the event the LLC is unable to do so. While one note bears an interest rate of four and 90/100 percent (4.9%), three of the notes bear no interest.

One of the notes requires annual payments based on a cash-flow formula outlined in the covenants to the note. This formula is a function of the net profit of Lazarus Hope, LLC. Since the LLC has not generated a profit since its inception, no principal payments have been made on this note. This note bears no interest.

The remaining three notes have no set repayment requirement as to principal or interest, and may be carried until maturity. Two of these notes bear no interest, while one of the notes is interest bearing as noted above.

The notes are secured by the transitional housing property, located in Lawrence, Massachusetts. All notes mature on November 10, 2036. As of March 31, 2018, and 2017, the guaranteed loan balance was \$2,610,000. (See also notes 4 and 14)

**16. COMMITMENTS AND CONTINGENCIES**

The Organization is party to a lease agreement with Lazarus Hope, LLC, for utilization of common areas at Capernaum Place, and for utilization of a conference room and certain office space. The term of the lease is nineteen years, expiring on December 31, 2026, and includes "Base Rent", "Additional Rent", and "Supplemental Rent". Included in the Additional Rent is the requirement that Lazarus House, Inc. pay a proportionate share of insurance, utilities, and repairs. Additionally, the Organization is responsible for all real estate taxes of Capernaum Place. For purpose of these financial statements, portions of the additional rent are included in their specified expenses. Total rent paid in 2018 and 2017 was \$149,817 and \$135,695, respectively.

Minimum base rent expense for the next five years is:

2019	\$ 218,625
2020	\$ 226,882
2021	\$ 235,471
2022	\$ 244,406
2023	\$ 253,703

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
MARCH 31, 2018 AND 2017

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**17. MEMORIAL BEQUESTS**

Memorial bequests are occasional donations made by an estate or as otherwise directed in a will. During fiscal year 2017, memorial bequests included \$189,000, which was received from the estate of a former donor. There were no material memorial bequests in fiscal year 2018.

**18. SPECIAL EVENTS**

Revenue reported on the statement of activities, and expenses reported on the statement of functional expenses, as special events, consist of major annual fundraising events, including the Hike for Hope, Lazarus House Golf Tournament, Annual Dinner, and other events held during the year.

Net revenue generated from special events during fiscal years ended March 31, 2018 and 2017 was \$612,009 and \$543,891, respectively.

**19. FUNDRAISING CAMPAIGN AND PLEDGES RECEIVABLE**

In 2011, Lazarus House conducted a fundraising campaign, to raise funds for additional programs to enhance education and other guest services, and for capital improvements. Donors were granted varying time options in which to meet their total pledges. The final pledge was collected in 2018.

During fiscal years 2018 and 2017, certain pledges were deemed to be uncollectible, and written off against revenue. As shown on the statements of activities, the total written off during fiscal years 2018 and 2017 was \$2,910 and \$94,925, respectively

Pledges receivable as of March 31

	<u>2018</u>	<u>2017</u>
Current portion	\$ -	\$ 11,350
Long term portion	<u>-</u>	<u>1,000</u>
Gross pledges receivable	-	12,350
Less discount to present value	<u>-</u>	<u>(90)</u>
Net pledges receivable at March 31	\$ <u>-</u>	\$ <u>12,260</u>

All pledges received were considered to be unrestricted in nature. For the purpose of the statement of financial position, total pledges receivable are included in unrestricted net assets as Board Designated. As of March 31, 2018, no pledges remain uncollected.

**LAZARUS HOUSE, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**MARCH 31, 2018 AND 2017**

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**20. SUBSTANTIAL CONTRIBUTIONS**

In fiscal year 2018, the Organization received a \$125,000 contribution from one donor. In fiscal year 2017, the Organization received a \$189,000 contribution from one donor. For purposes of these financial statements, substantial contributions are considered to be donations received by one donor of \$100,000 or greater, whether in a lump sum or in the aggregate.

**21. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 25, 2018, the date which the financial statements were available for issue, and has determined that there are no additional adjustments and/or disclosures required.

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