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LAZARUS HOUSE, INC.

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MARCH 31, 2016 AND 2015**

**LAZARUS HOUSE, INC.
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MARCH 31, 2016 AND 2015**

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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, 2016 and 2015, 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, 2016 and 2015, 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

July 28, 2016

LAZARUS HOUSE, INC.
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 3,505,966	\$ 3,863,944
Accounts receivable, net (Note 3)	55,041	44,265
Pledges receivable, current portion (Note 19)	115,869	277,070
Prepaid expenses	<u>46,160</u>	<u>48,201</u>
Total Current Assets	<u>3,723,036</u>	<u>4,233,480</u>
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation of \$2,066,413 and \$1,924,801 in 2016 and 2015, respectively (Note 6)	<u>1,988,514</u>	<u>2,018,029</u>
OTHER ASSETS		
Pledges receivable, long term portion (Note 19)	21,081	35,490
Investment in Capernaum Place, net (Note 4)	<u>768,941</u>	<u>768,941</u>
Total Other Assets	<u>790,022</u>	<u>804,431</u>
TOTAL ASSETS	<u>\$ 6,501,572</u>	<u>\$ 7,055,940</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 8,040	\$ 6,811
Accrued expenses	145,552	66,237
Unearned revenue (Note 12)	<u>78,789</u>	<u>78,789</u>
Total Liabilities	<u>232,381</u>	<u>151,837</u>
NET ASSETS		
Unrestricted		
Undesignated	3,245,051	3,573,689
Board designated (Note 8)	<u>2,767,392</u>	<u>3,073,666</u>
Total unrestricted net assets	6,012,443	6,647,355
Temporarily restricted (Note 7)	<u>256,748</u>	<u>256,748</u>
Total Net Assets	<u>6,269,191</u>	<u>6,904,103</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,501,572</u>	<u>\$ 7,055,940</u>

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

LAZARUS HOUSE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2016
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED MARCH 31, 2015)

	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
SUPPORT AND REVENUES				
Donations and grants	\$ 1,589,155	\$ 458,946	\$ 2,048,101	\$ 2,054,297
Special events (Note 18)	842,703	-	842,703	753,576
Thrift shop sales	468,350	-	468,350	438,921
Work preparation training (Note 11)	224,389	-	224,389	233,217
In kind contributions (Note 9)	4,650,383	-	4,650,383	4,820,965
Interest and dividend income	20,383	-	20,383	22,323
Gain (loss) on sale of fixed assets	1,250	-	1,250	(399)
Gain (loss) on sale of securities	-	-	-	(176)
Net assets released from restrictions (Note 7)	458,946	(458,946)	-	-
Total Support and Revenues	8,255,559	-	8,255,559	8,322,724
EXPENSES				
Program services	7,351,257	-	7,351,257	7,663,162
Management and general	745,280	-	745,280	710,435
Fund raising (Note 19)	793,934	-	793,934	777,641
Total Expenses	8,890,471	-	8,890,471	9,151,238
DECREASE IN NET ASSETS	(634,912)	-	(634,912)	(828,514)
NET ASSETS - BEGINNING	6,647,355	256,748	6,904,103	7,732,617
NET ASSETS - ENDING	\$ 6,012,443	\$ 256,748	\$ 6,269,191	\$ 6,904,103

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

LAZARUS HOUSE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2015

	Unrestricted	Temporarily Restricted	Total 2015
SUPPORT AND REVENUES			
Donations and grants	\$ 1,670,804	\$ 383,493	\$ 2,054,297
Special events (Note 18)	753,576	-	753,576
Thrift shop sales	438,921	-	438,921
Work preparation training (Note 11)	233,217	-	233,217
In kind contributions (Note 9)	4,820,965	-	4,820,965
Interest and dividend income	22,323	-	22,323
Gain on sale of fixed assets	(399)	-	(399)
Gain on sale of securities	(176)	-	(176)
Net assets released from restrictions (Note 7)	<u>383,493</u>	<u>(383,493)</u>	<u>-</u>
 Total Support and Revenues	 <u>8,322,724</u>	 <u>-</u>	 <u>8,322,724</u>
EXPENSES			
Program services	7,663,162	-	7,663,162
Management and general	710,435	-	710,435
Fund raising (Note 19)	<u>777,641</u>	<u>-</u>	<u>777,641</u>
 Total Expenses	 <u>9,151,238</u>	 <u>-</u>	 <u>9,151,238</u>
 INCREASE (DECREASE) IN NET ASSETS	 <u>(828,514)</u>	 <u>-</u>	 <u>(828,514)</u>
 NET ASSETS - BEGINNING	 <u>7,475,869</u>	 <u>256,748</u>	 <u>7,732,617</u>
 NET ASSETS - ENDING	 <u>\$ 6,647,355</u>	 <u>\$ 256,748</u>	 <u>\$ 6,904,103</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, 2016

	Program Services	Management and General	Fund Raising	Total
Salaries and wages	\$ 1,711,264	\$ 452,981	\$ 352,318	\$ 2,516,563
Payroll taxes	158,830	37,501	24,266	220,597
Food	56,468	-	-	56,468
Insurance	189,639	45,287	48,118	283,044
Office supplies	7,766	15,533	4,438	27,737
Postage and printing	24,279	-	59,443	83,722
Professional development	3,964	-	15,855	19,819
Professional fees	-	114,325	-	114,325
Program supplies	64,547	11,807	2,362	78,716
Rent expense	169,750	-	-	169,750
Repairs and maintenance	99,341	8,930	3,349	111,620
Special events	-	-	226,119	226,119
Telephone	6,624	2,208	1,683	10,515
Temporary labor service	18,174	-	-	18,174
Utilities	85,530	6,037	9,057	100,624
Vehicle expense	20,825	25	619	21,469
Website development	-	-	46,307	46,307
Depreciation	151,783	-	-	151,783
Other expenses	5,884	50,646	-	56,530
Bad debt expense (Note 19)	9,700	-	-	9,700
In-kind expenses	4,566,889	-	-	4,566,889
Total	\$ 7,351,257	\$ 745,280	\$ 793,934	\$ 8,890,471

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

LAZARUS HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2015

	Program Services	Management and General	Fund Raising	Total
Salaries and wages	\$ 1,644,395	\$ 450,886	\$ 342,902	\$ 2,438,183
Payroll taxes	152,664	36,666	23,016	212,346
Food	68,907	-	-	68,907
Insurance	192,402	46,335	47,730	286,467
Office supplies	9,597	19,622	5,556	34,775
Postage and printing	10,420	-	69,347	79,767
Professional development	3,718	-	14,655	18,373
Professional fees	-	72,165	200	72,365
Program supplies	25,048	4,736	1,016	30,800
Rent expense	155,058	-	-	155,058
Repairs and maintenance	96,419	8,955	3,084	108,458
Special events	-	-	195,373	195,373
Telephone	7,253	2,436	1,873	11,562
Temporary labor service	15,371	-	-	15,371
Utilities	117,943	9,049	11,917	138,909
Vehicle expense	30,334	110	745	31,189
Website development	-	-	60,227	60,227
Depreciation	160,351	-	-	160,351
Other expenses	8,074	59,475	-	67,549
Bad debt expense (Note 19)	173,466	-	-	173,466
In-kind expenses	4,791,742	-	-	4,791,742
Total	\$ 7,663,162	\$ 710,435	\$ 777,641	\$ 9,151,238

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

LAZARUS HOUSE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (634,912)	\$ (828,514)
Adjustments required to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	151,783	160,351
(Gain) loss on disposal of fixed assets	(1,250)	399
(Increase) decrease in accounts receivable	(10,776)	(35)
(Increase) decrease in pledges receivable	175,610	494,794
(Increase) decrease in prepaid expenses	2,041	16,239
Increase (decrease) in accounts payable and accrued expenses	80,544	2,673
Total Adjustments	397,952	674,421
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(236,960)</u>	<u>(154,093)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property and equipment	<u>(121,018)</u>	<u>(29,382)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(121,018)</u>	<u>(29,382)</u>
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(357,978)	(183,475)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>3,863,944</u>	<u>4,047,419</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 3,505,966</u>	<u>\$ 3,863,944</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
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, 2016 AND 2015

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 and Cash Equivalents

For purpose of the statement of cash flows, Lazarus House considers all unrestricted highly liquid investments to be cash equivalents.

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 fund account by the brokerage. Accordingly, there were no marketable securities at March 31, 2016 and 2015.

Accounts Receivable

As part of the work preparation program, *Spark*le Cleaning Company* bills its customers monthly. 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.

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, 2016 AND 2015

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 5 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 method 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. 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.

Cost Allocation

The cost of providing various programs and management and general expenses has been summarized on a functional basis in the statement of functional expenses. 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, 2016 AND 2015

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, 2015 financial statements have been reclassified to conform to the 2016 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 and cash equivalents, 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, 2016 AND 2015

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 AND CASH EQUIVALENTS

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

	<u>2016</u>	<u>2015</u>
Cash and checking	\$ 354,832	\$ 410,270
Savings and certificates of deposit	2,733,221	3,039,352
Money fund account	<u>417,913</u>	<u>414,322</u>
Total	<u>\$ 3,505,966</u>	<u>\$ 3,863,944</u>

3. ACCOUNTS RECEIVABLE

Accounts receivable include amounts due from *Spark'le Cleaning* customers (note 11). Also included in accounts receivable are non-interest bearing loans to employees. Total due from employees was \$12,278 and \$17,500, at March 31, 2016 and 2015, respectively.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2016 AND 2015

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 \$358,141 and \$306,097 at March 31, 2016 and 2015, 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 \$315,866 and \$263,822 at March 31, 2016 and 2015, 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, 2016 was 4.50%. 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, 2016 and 2015.

6. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2016 consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land and buildings	\$ 2,285,360	\$ 996,192	\$1,289,168
Building improvements	800,328	420,053	380,275
Equipment	637,791	414,159	223,632
Furniture and fixtures	218,942	189,762	29,180
Motor vehicles	<u>112,506</u>	<u>46,247</u>	<u>66,259</u>
Total	<u>\$ 4,054,927</u>	<u>\$ 2,066,413</u>	<u>\$ 1,988,514</u>

LAZARUS HOUSE, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2016 AND 2015**

6. PROPERTY AND EQUIPMENT (CONTINUED)

Property and equipment at March 31, 2015 consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land and buildings	\$ 2,285,360	\$ 942,341	\$1,343,019
Building improvements	789,077	390,137	398,940
Equipment	582,916	376,729	206,187
Furniture and fixtures	218,942	177,083	41,859
Motor vehicles	<u>66,535</u>	<u>38,511</u>	<u>28,024</u>
 Total	 <u>\$ 3,942,830</u>	 <u>\$ 1,924,801</u>	 <u>\$ 2,018,029</u>

Depreciation expense was \$151,783 and \$160,351 in fiscal years 2016 and 2015, respectively.

7. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</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>37,959</u>	<u>37,959</u>
 Total Temporarily Restricted Net Assets	 <u>\$ 256,748</u>	 <u>\$ 256,748</u>

During the years ended March 31, 2016 and 2015, 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 2016 and 2015 was \$458,946 and \$383,493, 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, 2016 AND 2015

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>2016</u>	<u>2015</u>
Food	\$ 3,585,312	\$ 3,822,536
Professional services	455,475	526,276
Clothes and household items	526,102	442,930
Other goods and services	<u>83,494</u>	<u>29,223</u>
Total	<u>\$ 4,650,383</u>	<u>\$ 4,820,965</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 more than 49,658 hours and 47,474 hours, in fiscal years 2016 and 2015, respectively, 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 fund-raising and other special events services. If a value were assigned to these volunteer hours and services, In-Kind Contributions would be increased by approximately \$645,554 and \$617,162 for fiscal years 2016 and 2015, respectively.

11. EDUCATION AND WORK PREPARATION PROGRAMS

While the Organization's main purpose is to provide disadvantaged persons with housing, food, and maintenance, 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 *Spark*L.E. Cleaning Service*; 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, 2016 AND 2015

12. UNEARNED REVENUE

Unearned revenue at March 31, 2016 and 2015 consists of grants received for operation of the dental clinic, which closed in April 2012. It is likely that the unexpended balance of private grant monies totaling \$78,789 will be required to be forwarded to the dental clinic's successor, less any costs incurred by Lazarus House for removal of dental equipment. Unearned income totaled \$78,789 in fiscal years 2016 and 2015. This money is expected to be repaid during fiscal 2017.

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 Funds account. Donations of marketable securities received during fiscal years 2016 and 2015, were valued at \$17,443 and \$2,670, 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 \$83,494 and \$29,223 in fiscal years 2016 and 2015, respectively, which is included in in-kind revenues. (See also 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 \$66,862 and \$74,571 for fiscal years 2016 and 2015, respectively. There were no amounts due to or from these related parties at March 31, 2016 and 2015.

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 \$109,000 and \$119,000 were made directly to the insurance carriers, in fiscal years 2016 and 2015, respectively.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2016 AND 2015

15. CONCENTRATION OF CREDIT RISK

The Organization places its cash equivalents in bank deposit and other accounts at credit-worthy financial institutions. The Organization has not experienced any losses on its cash equivalents. At times, bank deposit account balances may exceed the Federal Deposit Insurance Corporation (FDIC) limits. However, some of the Organization's deposits and investments 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 \$694,525 at March 31, 2016.

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 re-payment 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, 2016 and 2015, 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 November 10, 2025, 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 2016 and 2015 was \$169,750 and \$155,058, respectively.

Minimum base rent expense for the next five years is:

2017	\$ 203,057
2018	\$ 210,688
2019	\$ 218,625
2020	\$ 226,882
2021	\$ 235,471

LAZARUS HOUSE, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2016 AND 2015**

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

In fiscal 2016, a former employee brought a dismissal suit against Lazarus House, which was turned over to the Organization's insurance company. The insurance company has notified the Organization that a settlement will be forthcoming, and Lazarus House will be responsible for the deductible plus attorney fees in excess of the rates allowed by the insurance company. Management estimates that this amount will approximate \$7,500, which is included in accrued expenses in the statement of financial position at March 31, 2016.

17. MEMORIAL BEQUESTS

Memorial bequests are occasional donations made by an estate or as otherwise directed in a will. There were no material memorial bequests in fiscal year 2016 or 2015.

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 fund raising 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, 2016 and 2015 was \$616,584 and \$558,203, respectively.

19. CAPITAL CAMPAIGN AND PLEDGES RECEIVABLE

From 2011 through 2014, Lazarus House conducted a capital campaign, exceeding its \$5,000,000 goal by approximately \$192,000. Donors were granted either a three-year or five-year option in which to meet their total pledges, with longer extensions of time granted when specifically requested. The final pledge is expected to be collected by 2021.

Pledges receivable are measured at fair value upon receipt. Pledges not expected to be collected within one year are discounted to its estimated fair value using a present value technique. The fair value pledges collectible within one year are recognized at their net realizable value.

Pledges receivable are periodically evaluated for collectability based several factors, including loss experience, known and inherent risk in the pledge balances, and current economic conditions. Management has reviewed the pledges receivable and determined that an allowance for uncollectible pledges of \$14,000 and \$7,800 was required for fiscal years 2016 and 2015, respectively.

During fiscal year 2016, the balance due on one pledge totaling \$3,500 was deemed to be uncollectible, and written off. In 2015, the balance due on one pledge totaling \$165,666 was deemed to be uncollectible, and written off. These amounts are included in bad debt expense at March 31, 2016 and 2015, respectively. Total bad debt expense at March 31, 2016 and 2015 was \$9,700 and \$173,466, respectively.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2016 AND 2015

19. CAPITAL CAMPAIGN AND PLEDGES RECEIVABLE (CONTINUED)

Pledges receivable as of March 31		
	<u>2016</u>	<u>2015</u>
Current portion	\$ 129,869	\$ 286,962
Long term portion	<u>22,100</u>	<u>35,490</u>
Gross pledges receivable	151,969	322,452
Less discount to present value	(1,019)	(2,092)
Less allowance for uncollectible pledges	<u>(14,000)</u>	<u>(7,800)</u>
Net pledges receivable at March 31	<u>\$ 136,950</u>	<u>\$ 312,560</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.

20. FAIR VALUE MEASUREMENTS

The following assets carried at fair value are reviewed and adjusted on a recurring basis (See also notes 2 and 4):

Assets at Fair Value as of March 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents:				
Money market funds	\$ 417,913	\$ -	\$ -	\$ 417,913
Investments:				
Investment in Capernaum Place	<u>-</u>	<u>-</u>	<u>768,941</u>	<u>768,941</u>
Total	<u>\$ 417,913</u>	<u>\$ -</u>	<u>\$ 768,941</u>	<u>\$ 1,186,854</u>

Assets at Fair Value as of March 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash equivalents:				
Money market funds	\$ 414,322	\$ -	\$ -	\$ 414,322
Investments:				
Investment in Capernaum Place	<u>-</u>	<u>-</u>	<u>768,941</u>	<u>768,941</u>
Total	<u>\$ 414,322</u>	<u>\$ -</u>	<u>\$ 768,941</u>	<u>\$ 1,183,263</u>

LAZARUS HOUSE, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2016 AND 2015**

21. SUBSTANTIAL CONTRIBUTIONS

There were no substantial contributions received in 2016. In fiscal year 2015, the Organization received a \$100,000 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.

22. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 28, 2016, the date which the financial statements were available for issue, and has determined that there are no additional adjustments and/or disclosures required.
