

LAZARUS HOUSE, INC.

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MARCH 31, 2020 AND 2019**

**LAZARUS HOUSE, INC.
TABLE OF CONTENTS
MARCH 31, 2020 AND 2019**

	PAGE
Independent Auditors' Report	1 – 2
Statements of Financial Position	3
Statements of Activities	4 – 5
Statements of Functional Expenses	6 – 7
Statements of Cash Flows	8
Notes to Financial Statements	9 – 19

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis of a Matter with Respect to Adoption of Accounting Principle

As discussed in Note 2 to the financial statements, effective April 1, 2018, the Organization adopted a change in accounting principle for financial reporting, primarily related to the presentation of net assets and required disclosures related to liquidity. Our opinion is not modified with respect to that matter.

Rafferty + Company, P.C.

North Andover, Massachusetts
September 22, 2020

LAZARUS HOUSE, INC.
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash (Note 3)	\$ 2,133,179	\$ 1,927,577
Accounts receivable, net (Note 4)	27,661	30,338
Other receivable (Note 5)	71,857	10,300
Prepaid expenses	<u>47,777</u>	<u>40,802</u>
Total Current Assets	<u>2,280,474</u>	<u>2,009,017</u>
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation of \$2,525,344 and \$2,519,499 in 2020 and 2019, respectively (Note 8)	<u>2,138,037</u>	<u>2,365,447</u>
OTHER ASSETS		
Investment in Capernaum Place, net (Note 6)	<u>768,941</u>	<u>768,941</u>
Total Other Assets	<u>768,941</u>	<u>768,941</u>
TOTAL ASSETS	<u><u>\$ 5,187,452</u></u>	<u><u>\$ 5,143,405</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,619	\$ -
Accrued expenses and other current liabilities	139,999	80,139
Unearned revenue (Note 14)	<u>75,654</u>	<u>44,505</u>
Total Liabilities	<u>217,272</u>	<u>124,644</u>
NET ASSETS		
Without donor restrictions (Note 10)	4,152,565	4,505,373
With donor restrictions (Note 9)	<u>817,615</u>	<u>513,388</u>
Total Net Assets	<u>4,970,180</u>	<u>5,018,761</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,187,452</u></u>	<u><u>\$ 5,143,405</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, 2020
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED MARCH 31, 2019)

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Total 2019
SUPPORT AND REVENUES				
Donations and grants	\$ 2,635,180	\$ 649,642	\$ 3,284,822	\$ 3,166,350
Special events (Note 21)	875,338	-	875,338	879,615
Thrift shop sales	356,025	-	356,025	384,456
Work preparation training (Note 13)	295,251	-	295,251	280,027
Other program revenue	54,444	-	54,444	41,265
In-kind contributions (Note 11)	4,605,198	-	4,605,198	4,610,589
Interest and dividend income	7,020	-	7,020	5,861
Gain (loss) on sale of securities	(2,053)	-	(2,053)	(3,382)
Gain (loss) on sale of property & equipment	193,296	-	193,296	-
Net assets released from restrictions (Note 9)	345,415	(345,415)	-	-
Total Support and Revenues	<u>9,365,114</u>	<u>304,227</u>	<u>9,669,341</u>	<u>9,364,781</u>
EXPENSES				
Program services	8,023,475	-	8,023,475	7,724,956
Management and general	676,625	-	676,625	565,877
Fundraising	1,017,822	-	1,017,822	983,881
Total Expenses	<u>9,717,922</u>	<u>-</u>	<u>9,717,922</u>	<u>9,274,714</u>
INCREASE (DECREASE) IN NET ASSETS	(352,808)	304,227	(48,581)	90,067
NET ASSETS - BEGINNING	<u>4,505,373</u>	<u>513,388</u>	<u>5,018,761</u>	<u>4,928,694</u>
NET ASSETS - ENDING	<u>\$ 4,152,565</u>	<u>\$ 817,615</u>	<u>\$ 4,970,180</u>	<u>\$ 5,018,761</u>

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

LAZARUS HOUSE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2019
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED MARCH 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Total 2018
SUPPORT AND REVENUES				
Donations and grants	\$ 2,583,195	\$ 583,155	\$ 3,166,350	\$ 2,556,633
Special events (Note 21)	879,615	-	879,615	814,200
Thrift shop sales	384,456	-	384,456	435,102
Work preparation training (Note 13)	280,027	-	280,027	264,458
Other program revenue	41,265	-	41,265	8,180
In-kind contributions (Note 11)	4,610,589	-	4,610,589	4,630,276
Interest and dividend income	5,861	-	5,861	10,204
Gain (loss) on sale of securities	(3,382)	-	(3,382)	6
Write-offs of uncollectible pledges receivable	-	-	-	(2,910)
Net assets released from restrictions (Note 9)	376,515	(376,515)	-	-
Total Support and Revenues	<u>9,158,141</u>	<u>206,640</u>	<u>9,364,781</u>	<u>8,716,149</u>
EXPENSES				
Program services	7,724,956	-	7,724,956	7,646,213
Management and general	565,877	-	565,877	543,452
Fundraising	983,881	-	983,881	1,039,999
Total Expenses	<u>9,274,714</u>	<u>-</u>	<u>9,274,714</u>	<u>9,229,664</u>
INCREASE (DECREASE) IN NET ASSETS	(116,573)	206,640	90,067	(513,515)
NET ASSETS - BEGINNING	<u>4,621,946</u>	<u>306,748</u>	<u>4,928,694</u>	<u>5,442,209</u>
NET ASSETS - ENDING	<u>\$ 4,505,373</u>	<u>\$ 513,388</u>	<u>\$ 5,018,761</u>	<u>\$ 4,928,694</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, 2020

	Program Services	Management and General	Fund Raising	Total
Salaries and wages	\$ 2,145,274	\$ 371,999	\$ 428,527	\$ 2,945,800
Insurance	251,796	55,188	47,768	354,752
Payroll taxes	186,125	34,227	32,494	252,846
Special events	-	-	230,602	230,602
Professional fees	11,325	139,821	161,426	312,572
Rent expense	146,659	-	-	146,659
Program expenses	205,989	493	-	206,482
Depreciation	146,788	-	-	146,788
Utilities	100,193	7,921	12,334	120,448
Postage and printing	-	328	55,317	55,645
Repairs and maintenance	104,482	1,723	780	106,985
IT and website support	-	34,740	19,047	53,787
Other expenses	4,718	14,263	20,090	39,071
Food	52,445	-	-	52,445
Temporary labor service	24,376	-	-	24,376
Vehicle expense	21,596	-	2,029	23,625
Office supplies	9,717	13,839	4,417	27,973
Grants	22,915	-	-	22,915
Telephone	8,398	2,083	2,991	13,472
In-kind expenses	<u>4,580,679</u>	<u>-</u>	<u>-</u>	<u>4,580,679</u>
Total	<u>\$ 8,023,475</u>	<u>\$ 676,625</u>	<u>\$ 1,017,822</u>	<u>\$ 9,717,922</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, 2019

	Program Services	Management and General	Fund Raising	Total
Salaries and wages	\$ 1,940,398	\$ 303,075	\$ 391,585	\$ 2,635,058
Insurance	254,176	42,390	65,261	361,827
Payroll taxes	181,321	30,513	27,257	239,091
Special events	-	-	238,569	238,569
Professional fees	-	102,457	123,363	225,820
Rent expense	157,386	-	-	157,386
Program expenses	142,785	978	601	144,364
Depreciation	140,675	-	-	140,675
Utilities	107,931	8,447	14,103	130,481
Postage and printing	-	505	80,123	80,628
Repairs and maintenance	70,468	1,506	1,347	73,321
IT and website support	-	31,853	18,536	50,389
Other expenses	7,343	25,640	16,910	49,893
Food	42,026	-	-	42,026
Temporary labor service	35,393	-	-	35,393
Vehicle expense	28,109	-	215	28,324
Office supplies	3,674	16,287	3,481	23,442
Grants	21,000	-	-	21,000
Telephone	9,330	2,226	2,530	14,086
In-kind expenses	<u>4,582,941</u>	<u>-</u>	<u>-</u>	<u>4,582,941</u>
Total	<u>\$ 7,724,956</u>	<u>\$ 565,877</u>	<u>\$ 983,881</u>	<u>\$ 9,274,714</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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (48,581)	\$ 90,067
Adjustments required to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	146,788	140,675
(Gain) loss on disposal of fixed assets	(193,296)	-
(Increase) decrease in accounts receivable	2,677	9,491
(Increase) decrease in grants receivable	-	13,000
(Increase) decrease in other receivable	(6,695)	(8,250)
(Increase) decrease in prepaid expenses	(6,975)	21,646
Increase (decrease) in accounts payable and accrued expenses	61,479	11,939
Increase (decrease) in unearned revenue	31,149	(81,657)
Total Adjustments	35,127	106,844
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(13,454)</u>	<u>196,911</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds on sale of property and equipment	242,998	-
Expenditures for property and equipment	(23,942)	(773,348)
NET CASH USED IN (PROVIDED BY) INVESTING ACTIVITIES	<u>219,056</u>	<u>(773,348)</u>
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	205,602	(576,437)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>1,927,577</u>	<u>2,504,014</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 2,133,179</u>	<u>\$ 1,927,577</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for taxes	\$ -	\$ -

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

LAZARUS HOUSE, INC.

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019**

1. NATURE OF THE 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 offering a continuum of care to individuals and families, our Guests, struggling with poverty and homelessness. Our services include temporary and permanent shelters, transitional housing, food pantry, soup kitchen, thrift stores, advocacy, and work preparation programs.

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Issued and Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. This pronouncement addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization adopted the ASU effective April 1, 2018, on a retrospective basis to all periods presented. See Note 19 for required disclosure on availability of financial assets and liquidity.

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 (“U.S. GAAP”). Revenues are recognized when earned and expenses are recognized when incurred.

Basis of Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

Net Assets Without Donor Restriction— These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net Assets With Donor Restriction—These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted.

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.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020 and 2019.

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. In July 2020, the Organization discontinued the *Spark*L.E. Cleaning Services* work preparation program. (See also note 12)

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.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Reclassification

Certain items in the March 31, 2019 financial statements have been reclassified to conform to the 2020 presentation.

Revenue and Revenue Recognition

Revenue is recognized when earned. Donations and grants are recognized when cash, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the restriction. Revenue from thrift shop sales is recognized at the point of sale. Revenue from work preparation training program fees is recognized when the service is provided to the customer.

Financial Instruments

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.

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, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

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.

3. CASH

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

	<u>2020</u>	<u>2019</u>
Cash and checking	\$ 313,856	\$ 154,628
Savings and certificates of deposit	<u>1,819,323</u>	<u>1,772,949</u>
Total	<u>\$ 2,133,179</u>	<u>\$ 1,927,577</u>

4. ACCOUNTS RECEIVABLE

Accounts receivable include amounts due from *Spark*L.E Cleaning Services* customers (note 13).

5. OTHER RECEIVABLE

Other receivable includes \$54,862 due to the Organization from the sale of property sold in fiscal year 2020. The funds were received in May 2020. There was no such receivable as of March 31, 2019. Also included in other receivable are non-interest-bearing loans to employees, which amounted to \$16,995 and \$10,300, as of March 31, 2020 and 2019, respectively.

6. 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.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2020 AND 2019

6. INVESTMENT IN CAPERNAUM PLACE (CONTINUED)

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 \$593,904 and \$530,548 at March 31, 2020 and 2019, 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 \$551,629 and \$488,273 at March 31, 2020 and 2019, respectively.

7. 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, 2020 was 4.25%. 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, 2020 and 2019.

8. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2020 consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land and buildings	\$ 2,826,522	\$ 1,119,962	\$ 1,706,560
Building improvements	858,197	534,455	323,742
Equipment	680,383	577,243	103,140
Furniture and fixtures	218,942	218,942	-
Motor vehicles	<u>79,337</u>	<u>74,742</u>	<u>4,595</u>
Total	<u>\$ 4,663,381</u>	<u>\$ 2,525,344</u>	<u>\$ 2,138,037</u>

LAZARUS HOUSE, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2020 AND 2019**

8. PROPERTY AND EQUIPMENT (CONTINUED)

Property and equipment at March 31, 2019 consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land and buildings	\$ 3,035,658	\$ 1,157,750	\$ 1,877,908
Building improvements	845,590	508,688	336,902
Equipment	672,248	539,352	132,896
Furniture and fixtures	218,942	217,024	1,918
Motor vehicles	<u>112,508</u>	<u>96,685</u>	<u>15,823</u>
Total	<u>\$ 4,884,946</u>	<u>\$ 2,519,499</u>	<u>\$ 2,365,447</u>

Depreciation expense was \$146,788 and \$140,675 in fiscal years 2020 and 2019, respectively.

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at March 31 consists of the following:

	<u>2020</u>	<u>2019</u>
Restricted for management expenses, project upkeep and certain other expenses of Capernaum Place	\$ 104,195	\$ 140,327
Restricted by private grants for the Life Skills Center, facility improvements, and certain program costs	<u>713,420</u>	<u>373,061</u>
Total Net Assets With Donor Restrictions	<u>\$ 817,615</u>	<u>\$ 513,388</u>

During the years ended March 31, 2020 and 2019, 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 2020 and 2019 was \$345,415 and \$376,515, respectively.

10. NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED

Board designated 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 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. As of March 31, 2020, and 2019, board designated net assets were \$1,146,406 and \$1,239,846, respectively.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2020 AND 2019

11. 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>2020</u>	<u>2019</u>
Food	\$ 3,449,783	\$ 3,415,816
Professional services	520,715	544,265
Clothes and household items	610,181	622,860
Other goods and services	<u>24,519</u>	<u>27,648</u>
Total	<u>\$ 4,605,198</u>	<u>\$ 4,610,589</u>

12. DONATED SERVICES

Professional services included in In-Kind Contributions (note 10) 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 24,000, and 25,000 hours in fiscal years 2020 and 2019, respectively, which have not been reflected in these financial statements. The volunteers provided household services, assistance in the food pantry, 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 \$372,000 and \$381,000 for fiscal years 2020 and 2019, respectively.

13. EDUCATION AND WORK PREPARATION PROGRAMS

Lazarus House's education and work preparation programs aim to assist individuals to become self-sufficient in their effort to secure a better future through education, hands-on job training, and help with job placement.

The programs include *English for Speakers of Other Languages* (ESOL) classes, life-skills and pre-employment workshops, sewing classes, high-quality training in industrial cleaning through the organization's social enterprise, Spark*L.E. Cleaning Services and Culinary Arts training including National ServSafe Food Manager certification. Training participants also learn through a temporary internship experience.

The Organization continually evaluates the effectiveness of its programs to meet the needs of its Guests. The above mentioned ESOL classes were discontinued in February 2020 and the Spark*L.E. Cleaning Services program was discontinued in July 2020.

14. UNEARNED REVENUE

At March 31, 2020 and 2019 unearned revenue includes donations and fees, received in advance of events held in each subsequent year, of \$75,654 and \$44,505, respectively.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2020 AND 2019

15. 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 2020 and 2019, were valued at \$85,062 and \$174,965, 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 \$24,519 and \$27,648 in fiscal years 2020 and 2019, respectively, which is included in in-kind revenues. (See note 10)

16. 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 5)

The Organization incurred expenses for services and supplies provided by two board members or their families. Additionally, the Organization employed one person who was the daughter of a former member of management. The total amount paid for the expenses associated with these services and supplies approximated \$72,320 and \$70,332 for fiscal years 2020 and 2019, respectively. There were no amounts due to or from these related parties at March 31, 2020 and 2019.

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 \$115,000 and \$112,000 were made directly to the insurance carriers, in fiscal years 2020 and 2019, respectively.

One board member is a principle at a law firm which provided legal services to the Organization. The services amounted to \$31,515 and \$35,172 in fiscal years 2020 and 2019, respectively.

17. 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 \$1,043,142 at March 31, 2020.

LAZARUS HOUSE, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2020 AND 2019**

17. CONCENTRATION OF CREDIT RISK (CONTINUED)

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, 2020, and 2019, the guaranteed loan balance was \$2,610,000. (See also notes 5 and 15)

18. 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 2020 and 2019 was \$146,659 and \$157,386, respectively.

Minimum base rent expense for the next five years is:

2021	\$ 235,471
2022	\$ 244,406
2023	\$ 253,703
2024	\$ 263,378
2025	\$ 273,445

19. HEALTH INSURANCE

In October 2018, the Organization entered into a partially self-funded health insurance plan. All full-time employees of the Organization have an option to participate in the health insurance plan. The cost of medical insurance is paid out of employee and employer contributions. The Organization has contracted with a third party to administer the plan. Under the current health plan, expiring in September 2020, the Organization estimates its full exposure, over the course of the plan year, to be approximately \$61,000. During the fiscal years ended March 31, 2020, and 2019 the Organization had accrued approximately \$43,000 and \$34,000 of unpaid medical insurance benefits, respectively.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2020 AND 2019

20. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial stability, maintaining adequate liquidity to fund near-term operations, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The following reflects the Organization's financial assets on the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions.

	<u>2020</u>	<u>2019</u>
Cash	\$2,133,179	\$1,927,577
Accounts receivable, net, collected in less than one year	44,656	40,638
Other receivable, collected in less than one year	<u>54,862</u>	<u>-</u>
Total financial assets, excluding noncurrent receivables and non-liquid investments	2,232,697	1,968,215
Contractual or donor-imposed restrictions:		
Restricted for management expenses, project upkeep and certain other expenses for Capernaum Place	(104,195)	(140,327)
Donor imposed restrictions – private grants reserved for Life Skills Center, facility improvements, other educational and certain program costs	<u>(713,420)</u>	<u>(373,061)</u>
Financial assets available to meet cash need for expenditures within one year	<u>\$1,415,082</u>	<u>\$1,454,827</u>

As disclosed in Note 9 to the financial statements, the Organization's governing board has placed internal restrictions on certain amounts collected through previous fundraising campaigns. The designated amounts of \$1,146,406 and \$1,239,846, at March 31, 2020 and 2019, respectively, are included above in the financial assets available to meet cash needs within one year as these reserves could be drawn upon if the board approved that action. Further, as disclosed in Note 6, the Organization has available a \$50,000 revolving credit loan.

In addition to financial assets available to meet expenditures within the year, the Organization anticipates covering its general expenditures by collecting donations and grants in its normal revenue cycle and from planned fundraising campaigns and events.

LAZARUS HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2020 AND 2019

21. 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, 2020 and 2019 was \$644,736 and \$641,046, respectively.

22. SUBSTANTIAL CONTRIBUTIONS

In fiscal year 2020, the Organization received four substantial contributions in fiscal year 2020 totaling \$688,732. In fiscal year 2019, the Organization received a \$250,000 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.

23. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 22, 2020, the date which the financial statements were available for issue, and has determined that there are no additional adjustments and/or disclosures required.

In early March, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread. Business continuity continues to be impacted as governments and their citizens take measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its effect on operations and fundraising. No adjustments have been made to these financial statements as a result of this uncertainty.

On April 15, 2020, the Organization received loan proceeds in the amount of \$643,000 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 twenty-four weeks 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 twenty-four week period and those reductions are not cured by December 31, 2020. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%. The Organization intends to use the proceeds for purposes consistent with the PPP. While the Organization currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, actions could be taken that could cause the Foundation to be ineligible for forgiveness of the loan, in whole or in part.