

**LAZARUS HOUSE, INC. AND SUBSIDIARY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED MARCH 31, 2022**

**LAZARUS HOUSE, INC. AND SUBSIDIARY**  
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**MARCH 31, 2022**

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

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

## **INDEPENDENT AUDITORS' REPORT**

### ***Opinion***

We have audited the accompanying consolidated financial statements of Lazarus House, Inc. (a nonprofit organization) and its subsidiary Lazarus Hope, LLC, which comprise the consolidated statements of financial position as of March 31, 2022 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lazarus House, Inc. and its subsidiary as of March 31, 2022, and the changes in their consolidated net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lazarus House, Inc. and its subsidiary, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibility of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise significant doubt about Lazarus House, Inc. and its subsidiary's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lazarus House, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lazarus House, Inc. and its subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Rafferty + Company, P.C.*

November 23, 2022

**LAZARUS HOUSE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**MARCH 31, 2022**

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash (Note 3)	\$ 7,034,435
Accounts receivable, net	-
Payroll tax refund receivable (Note 21)	429,430
Prepaid expenses and other current assets	<u>65,667</u>
Total Current Assets	<u>7,529,532</u>
<b>PROPERTY AND EQUIPMENT</b>	
Net of accumulated depreciation of \$4,814,098 and \$2,598,400 in 2022 and 2021, respectively (Note 6)	<u>5,888,433</u>
<b>OTHER ASSETS</b>	
Other Intangible Asset, Net	5,141
Operating and Replacement Reserves	<u>134,669</u>
Total Other Assets	<u>139,810</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 13,557,775</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 42,194
Accrued expenses and other current liabilities	79,615
Unearned revenue (Note 13)	<u>85,611</u>
Total Current Liabilities	<u>207,420</u>
<b>LONG-TERM LIABILITIES</b>	
Notes payable (Note 4)	2,569,974
Accrued Loan Interest	<u>1,750,040</u>
Total Long-Term Liabilities	<u>4,320,014</u>
Total Liabilities	<u>4,527,434</u>
<b>NET ASSETS AND MEMBER'S EQUITY</b>	
Member's equity	(902,503)
Without donor restrictions (Note 9)	9,179,607
With donor restrictions (Note 8)	<u>753,237</u>
Total Net Assets and Member's Equity	<u>9,030,341</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 13,557,775</u></u>

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

**LAZARUS HOUSE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED MARCH 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUES</b>			
Donations and grants	\$ 2,764,778	\$ 803,656	\$ 3,568,434
Special events (Note 19)	1,010,879	-	1,010,879
Thrift shop sales	321,957	-	321,957
Other program revenue	9,805	-	9,805
In-kind contributions (Note 10)	4,371,617	-	4,371,617
Interest and dividend income	21,848	-	21,848
Gain (loss) on sale of securities	(1,002)	-	(1,002)
Gain (loss) on sale of property & equipment	525,948	-	525,948
Rental Income	23,555	-	23,555
Other Income	1,390	-	1,390
Net assets released from restrictions (Note 8)	959,499	(959,499)	-
	<u>10,010,274</u>	<u>(155,843)</u>	<u>9,854,431</u>
<b>EXPENSES</b>			
Lazarus Hope LLC expenses	138,778	-	138,778
Program services	6,761,445	-	6,761,445
Management and general	745,227	-	745,227
Fundraising	781,033	-	781,033
	<u>8,426,483</u>	<u>-</u>	<u>8,426,483</u>
<b>INCREASE (DECREASE) IN NET ASSETS BEFORE OTHER INCOME</b>	<u>1,583,791</u>	<u>(155,843)</u>	<u>1,427,948</u>
<b>OTHER INCOME</b>			
Gain on extinguishment of debt	1,298,448	-	1,298,448
Employee Retention Credit (Note 21)	429,430	-	429,430
Total Other Income	<u>1,727,878</u>	<u>-</u>	<u>1,727,878</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	3,311,669	(155,843)	3,155,826
<b>NET ASSETS AND MEMBER'S EQUITY - BEGINNING</b>	<u>4,965,435</u>	<u>909,080</u>	<u>5,874,515</u>
<b>NET ASSETS AND MEMBER'S EQUITY - ENDING</b>	<u>\$ 8,277,104</u>	<u>\$ 753,237</u>	<u>\$ 9,030,341</u>

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

**LAZARUS HOUSE, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED MARCH 31, 2022**

	Program Services	Management and General	Fund Raising	Lazarus Hope LLC	Total
Salaries and wages	\$ 1,257,414	\$ 421,058	\$ 356,782	\$ 4,399	\$ 2,039,653
Insurance	123,860	45,152	38,762	6,359	214,133
Payroll taxes	118,982	23,731	27,956	602	171,271
Special events	-	-	232,002	-	232,002
Professional fees	54,747	119,723	19,922	4,426	198,818
Rent expense	100,964	-	-	-	100,964
Program expenses	202,372	650	72	-	203,094
Depreciation and amortization	135,073	-	-	40,627	175,700
Utilities	97,040	-	10,268	10,911	118,219
Postage and printing	-	61	35,526	-	35,587
Repairs and maintenance	100,140	17,038	5,729	24,342	147,249
IT and website support	416	71,142	14,251	-	85,809
Other expenses	23,183	17,050	28,945	-	69,178
Food	134,926	-	-	-	134,926
Temporary labor service	3,745	5,490	-	-	9,235
Vehicle expense	14,205	340	1,258	-	15,803
Office supplies	17,311	17,536	5,648	524	41,019
Grants	18,750	-	-	-	18,750
Telephone	3,228	2,430	3,912	625	10,195
Interest expense	-	3,826	-	39,086	42,912
Real estate taxes	-	-	-	3,029	3,029
Management fee	-	-	-	3,140	3,140
Administrative expenses	-	-	-	708	708
In-kind expenses	4,355,089	-	-	-	4,355,089
<b>Total</b>	<b>\$ 6,761,445</b>	<b>\$ 745,227</b>	<b>\$ 781,033</b>	<b>\$ 138,778</b>	<b>\$ 8,426,483</b>

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

**LAZARUS HOUSE, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2022**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ <u>3,155,827</u>
Adjustments required to reconcile decrease in net assets to net cash provided by (used in) operating activities:	
Depreciation	175,700
(Gain) loss on disposal of property, equipment, and securities	(525,948)
(Gain) loss on extinguishment of debt	(1,287,380)
(Increase) decrease in payroll tax refund receivable	(412,111)
(Increase) decrease in prepaid expenses	(5,228)
(Increase) decrease in reserve	20,217
Increase (decrease) in accounts payable and accrued expenses	(907)
Increase (decrease) in security deposits	(6,277)
Increase (decrease) in unearned revenue	<u>40,511</u>
Total Adjustments	(2,001,423)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>1,154,404</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Net proceeds on sale of property and equipment	1,213,918
Expenditures for property and equipment	<u>(559,224)</u>
<b>NET CASH USED IN (PROVIDED BY) INVESTING ACTIVITIES</b>	<u>654,694</u>
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	1,809,098
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<u>5,225,337</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ <u>7,034,435</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>	
Cash paid during the year for interest	\$ <u>          -</u>
Cash paid during the year for taxes	\$ <u>          -</u>

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



# LAZARUS HOUSE, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2022

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### 1. NATURE OF THE ORGANIZATION

These consolidated financial statements consist of Lazarus House Inc. and Lazarus Hope, LLC (the "Organization").

Lazarus House, Inc., based in Lawrence, Massachusetts, was incorporated on May 12, 1982, as a private, charitable, not-for-profit organization. Lazarus House Inc.'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. 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.

Lazarus Hope LLC, a subsidiary of Lazarus House, Inc. was formed on August 8, 2006 to construct and operate twenty units of affordable transitional housing for qualifying very low income tenants located in Lawrence, Massachusetts, known as Capernaum Place (the Project). The Project also contains commercial space to be used for education and job training programs. The Project was completed and placed into service in October 2007. The operating agreement provides that Lazarus Hope, LLC is to terminate December 31, 2056 unless terminated earlier in accordance with the terms of the operating agreement.

Lazarus Hope, LLC managing member is Lazarus Hope Housing, Inc. Lazarus Hope Housing, Inc. had a 0.01% interest in the LLC while an investor member held the remaining 99.99% interest. Lazarus House, Inc. holds a 79% interest in Lazarus Hope Housing, Inc. Effective December 31, 2021, the investor member transferred member interest to Lazarus House, Inc., giving Lazarus House Inc. a controlling interest in Lazarus Hope, LLC.

### 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **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.

#### **Forgivable Loans-SBA Paycheck Protection Program Loan**

Lazarus House Inc.'s policy is to account for forgivable loans received through the Small Business Administration (SBA) under the Coronavirus Aid, Relief and Economic Security Act (CARES Act) Paycheck Protection Program (PPP), as debt in accordance with Accounting Standards Codification (ASC) 470, "Debt", and other related accounting pronouncements. The forgiveness of debt, in whole or in part, is recognized once the debt is extinguished, which occurs when the Organization is legally released from the liability by the SBA.

During the fiscal year ended March 31, 2022, Lazarus House, Inc.'s Paycheck Protection Program loans were forgiven by the SBA. Accordingly, the loan forgiveness is recorded in the Statement of Activities as Gain on Extinguishment.

LAZARUS HOUSE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2022

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2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Principles of Consolidation**

The assets, liabilities, net assets, revenues and expenses of Lazarus House, Inc. and its subsidiary Lazarus Hope, LLC have been consolidated as Lazarus House, Inc., and Subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

**Basis of Financial Statement Presentation**

The consolidated financial statements of Lazarus House, Inc. and Subsidiary have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require Lazarus House Inc. and Subsidiary to report information regarding their financial position and activities according to the following net asset classifications.

*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.

**Marketable Securities**

From time to time, the Lazarus House Inc. receives donations of stock securities, which are transferred directly into an investment account, in Lazarus House Inc's name, maintained by a brokerage firm. The Board of Directors has determined that Lazarus House Inc'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, 2022.

**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 Lazarus House Inc. 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.

**LAZARUS HOUSE, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**MARCH 31, 2022**

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**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Tax Status**

Lazarus House Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). This IRC section enables Lazarus House Inc. 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.

Lazarus Hope, LLC is subject to federal and state income taxes, and files returns in the U.S. federal and State of Massachusetts jurisdictions. Lazarus Hope, LLC reports its taxable income and expenses as a Partnership, under form 1065. Accordingly, no provision is made for federal or state income taxes in the accompanying financial statements. Any income or loss in a given year is reported via form K-1 to its shareholders. Effective December 31, 2021 Lazarus House Inc. became a 99.99% owner of Lazarus Hope, LLC. No income or loss was reported on the 2021 K-1 to Lazarus House Inc. Lazarus Hope, LLC files its tax returns on a calendar year basis.

**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 Lazarus House Inc.. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses for Lazarus Hope, LLC are detailed separately in the consolidating statement of functional expenses.

**Revenue and Revenue Recognition**

Lazarus House, Inc. 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.

Lazarus Hope, LLC receives rental income from units which are reserved for people with very low income. Rental revenue is recognized at gross potential rent of the unit, based on the current rent and any related vacancy is recorded separately.

LAZARUS HOUSE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
MARCH 31, 2022

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2. **BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue and Revenue Recognition (Continued)**

All leases between Lazarus Hope, LLC and its tenants are operating leases. Advance receipts of rental income are deferred and classified as liabilities until earned. Expenses are recorded when goods or services are received or incurred. Lazarus Hope, LLC derives substantially all of its revenues from its rental activity in Lawrence, Massachusetts.

**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.

**Below Market Loans**

The Low-Income Housing Tax Credit (LIHTC) was created to foster a legislated public policy directive of the United States to create affordable low-income housing. Lazarus Hope, LLC was formed in order to create low-income housing in order to generate LIHTC. Other governmental entities having a similar policy have lent money to Lazarus Hope, LLC at advantageous terms. The Organization has not discounted these below market interest rate loans as they were made at arm's length, and to preserve the integrity of costs eligible for the LIHTC.

**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.

LAZARUS HOUSE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2022

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Fair Value Measurements (Continued)**

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 at March 31, 2022:

Cash and checking	\$ 304,913
Savings and certificates of deposit	<u>6,729,522</u>
Total	<u>\$ 7,034,435</u>

4. LAZARUS HOPE, LLC AND CAPERNAUM PLACE

Lazarus Hope, LLC constructed Capernaum Place for the purpose of receiving an allocation of low-income housing tax credits (LIHTC) under Section 42 of the Internal Revenue Code. The Project's building has qualified and been allocated LIHTC pursuant to Internal Revenue Code Section 42, which regulates the use of the Project as to occupant eligibility and unit gross rent, among other requirements. The Project must meet the provisions of these regulations during each of fifteen consecutive years in order to continue to qualify to receive the LIHTC.

Failure to comply with occupant eligibility and/or unit gross rent or to correct noncompliance within a specified time period could result in recapture of previously taken LIHTC plus interest. Such potential noncompliance may require an adjustment to the capital contributed by the investing partners.

Lazarus Hope, LLC has received a reservation of LIHTC under Section 42 of the Internal Revenue Code in the amount of \$288,000. The credits commenced in 2007 and were prorated in the first year based on qualified occupancy. The credits ended in 2017.

*Lazarus House Inc. Investment in Lazarus Hope, LLC*

Lazarus House Inc. 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.

**LAZARUS HOUSE, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**MARCH 31, 2022**

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**4. LAZARUS HOPE, LLC AND CAPERNAUM PLACE (CONTINUED)**

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.

Lazarus House Inc. management has reviewed the notes receivable and accrued interest thereon of \$730,359 at March 31, 2022 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 \$688,084 at March 31, 2022.

The notes and accrued interest between Lazarus House, Inc. and Lazarus Hope, LLC has been eliminated in consolidation.

*Operating Reserve*

In accordance with the LLC operating agreement, the managing member established an operating reserve to be used to fund operating deficits. An initial deposit of \$110,000 was made from the proceeds of the second installment from the original investor member. The Operating Reserve Minimum shall equal 50% of project expenses paid or payable during the prior fiscal year. In any month in which the balance of funds in the operating reserve is less than the Operating Reserve Minimum, a deposit from net cash flow shall be made to the operating reserve to bring the balance to the Operating Reserve Minimum.

*Replacement Reserve*

In accordance with the operating agreement, the managing member, Lazarus Hope Housing, Inc. established and maintained a replacement reserve by making installment deposits. The replacement reserve is held by Bank of America. The replacement reserve shall be used by the managing member only to replace capital items as they come to the end of their useful lives.

*Lazarus Hope, LLC Members' Capital Contributions*

In accordance with the operating agreement the original investor member agreed to and made capital contributions totaling \$2,850,915. Additionally, in accordance with the operating agreement, the managing member agreed to and made a capital contribution of \$100. During 2008, the managing member made an additional capital contribution of \$19,900 to fund development cost overruns and therefore provided a total of \$20,000 in capital contributions.

In accordance with the operating agreement, the managing member has agreed to make additional capital contributions to fund operating deficits in excess of the funds in the operating reserve, as defined in the agreement.

**LAZARUS HOUSE, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**MARCH 31, 2022**

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**4. LAZARUS HOPE, LLC AND CAPERNAUM PLACE (CONTINUED)**

*Lazarus Hope, LLC Company Profits, Losses and Distributions*

All profits and losses are allocated 0.01% to the managing member (Lazarus Hope Housing Inc.), and 99.99% to the investor member. The investor member was Massachusetts Housing Equity Fund XII LLC through December 31, 2021, at which point it transferred its member interests to Lazarus House Inc.

Net cash flow is defined as the sum of gross revenues plus amounts properly withdrawn from the operating reserve and expended during such period, less the sum of project expenses and debt service.

The managing member shall apply net cash flow to the following expenses in the following order of priority:

- First, to make required deposits to the operating reserve;
- Second, to pay any unpaid amount of the development fee;
- Third, to pay any incentive management fee;
- Fourth, to repay the loan from the Sponsor in the original principal amount of \$539,666; and
- Fifth, to repay the loan from the Sponsor in the original principal amount of \$187,000.

Distributable cash flow is defined in the operating agreement as the net cash flow less required contributions to the operating reserve and less payments of all loans and fee obligations of Lazarus Hope, LLC that are payable from net cash flow, to the extent permitted by Lazarus Hope, LLC documents to be distributed to the members of the Lazarus Hope, LLC.

Distributable cash flow is payable annually within 120 days after the close of each year as follows:

- First, if the managing member has made operating deficit capital contributions, to the managing member in an amount up to the aggregate amount of such operating deficit capital contributions not theretofore repaid to the managing member; and
- Second, the balance, if any, is paid 99.99% to the investor member and 0.01% to the managing member.

Cash, if any, from a sale or refinancing (other than in connection with a liquidation of the Company or any member's interest in the Company) will be distributed within 30 days of its receipt by the Company as follows:

- First, to the investor member in an amount that, when combined with all items of income, gain, deduction and loss to be allocated to the investor member and all other amounts to be distributed to the investor member under the operating agreement, would achieve the internal rate of return set forth in the operating agreement;
- Second, to the managing member an amount up to the aggregate amount of any operating deficit capital contributions not theretofore repaid to the managing member; and
- Third, the balance, 50% to the investor member and 50% to the managing member.

**LAZARUS HOUSE, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**MARCH 31, 2022**

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**4. LAZARUS HOPE, LLC AND CAPERNAUM PLACE (CONTINUED)**

Loss, if any, from a sale or refinancing or upon liquidation of the Company shall be allocated as follows:

- a) First, to any members having positive capital account balances, in proportion to and to the extent of such positive balances; and
- b) The balance 99.99% to the investor member and 0.01% to the managing member.

*Mortgage Notes Payable*

*City of Lawrence – HOME Investment Partnership Program Note*

The City of Lawrence Community Development Department provided financing to Lazarus Hope, LLC under the HOME Investment Partnership Program in the amount of \$560,000. The loan is secured by the Project and bears 5.5% simple interest. All principal and other payments due under the note shall be payable on November 10, 2036, the maturity date. Accrued interest on this note was \$566,000 at March 31, 2022.

*DHCD – Affordable Housing Trust Fund Note*

The Massachusetts Department of Housing and Community Development (DHCD) provided financing to Lazarus Hope, LLC under the Affordable Housing Trust Fund (AHTF) in the amount of \$750,000. The loan is administered by MassHousing, secured by the Project and bears no interest. All principal and other payments due under the note shall be payable on November 10, 2036, the maturity date.

*CEDAC – Housing Innovations Fund Note*

The Community Economic Development Assistance Corporation (CEDAC) provided financing to Lazarus Hope, LLC in the form of a Housing Innovations Fund (HIF) loan in the amount of \$750,000. The loan is secured by the Project and bears no interest. Annual payments are due to the lender in an amount equal to the amount by which gross cash receipts for the fiscal year just ended exceeds 105% of gross cash expenditures for the same period, as defined in the promissory note. All outstanding principal due under the note shall be payable on November 10, 2036, the maturity date. The lender may extend the maturity date for one or more additional periods of up to ten years each, provided that the Project continues to comply with all provisions relating to affordability set forth in the Master Affordable Housing Restriction.

*DHCD – HOME Investment Partnership Program Note*

DHCD provided financing to Lazarus Hope, LLC in the form of a HOME Investment Partnership Program loan in the amount of \$550,000. The loan is secured by the Project and bears interest at the rate of 4.90% per annum. All principal, interest and other payments due under the note shall be payable on November 10, 2036, the maturity date. During the one-year period prior to the maturity date, the borrower may request that the lender extend the maturity date for a period of up to the original term of the note. Accrued interest on this loan was \$455,000 at March 31, 2022.



**LAZARUS HOUSE, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**MARCH 31, 2022**

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**5. REVOLVING CREDIT LOAN**

Lazarus House Inc. 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, 2022 was 4.50%. The line-of-credit is secured by substantially all the Lazarus House Inc. assets. There was no outstanding balance on this line-of-credit at March 31, 2022.

**6. PROPERTY AND EQUIPMENT**

Property and equipment at March 31, 2022 consisted of the following:

Land and buildings	\$ 8,032,651
Building improvements	1,352,635
Equipment	876,642
Furniture and fixtures	417,630
Motor vehicles	22,973
Accumulated depreciation	<u>(4,814,098)</u>
Property and Equipment, net	<u>\$ 5,888,433</u>

Depreciation expense was \$175,700 in fiscal year 2022.

**7. PAYROLL PROTECTION PROGRAM LOAN**

During the fiscal year ended March 31, 2021, the Organization received approval for two Small Business Administration (SBA) Payroll Protection Program ("PPP") Loans. Under the PPP, funds are forgivable if utilized for qualified expenditures according to the program criteria incurred over an eight to twenty-four week period following the date of funding. To qualify for forgiveness, the funding must be spent on eligible payroll expenses, with up to 40% allowed to be spent on other eligible expenditures such as rent and utilities. The loans were forgiven in May 2021 and September 2021. Forgiveness of these loans is reflected as gain on extinguishment of debt in the Statement of Activities.

**8. NET ASSETS WITH DONOR RESTRICTIONS**

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

Restricted for management expenses, project upkeep and certain other expenses of Capernaum Place	\$104,195
Restricted by private grants for the Life Skills Center, facility improvements, and certain program costs	<u>649,042</u>
Total Net Assets With Donor Restrictions	<u>\$753,237</u>

During the year ended March 31, 2022, 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 2022 was \$959,499.

**LAZARUS HOUSE, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**MARCH 31, 2022**

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**9. 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, 2022, board designated net assets were \$2,295,097.

**10. IN-KIND CONTRIBUTIONS**

Lazarus House, Inc. 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 year ended March 31, 2022:

Food	\$ 3,510,411
Professional services	218,934
Clothes and household items	625,744
Other goods and services	<u>16,528</u>
Total	<u>\$ 4,371,617</u>

**11. 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, Lazarus House Inc. received services of a non-professional nature, totaling greater than 2,670 in fiscal year 2022, 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 \$40,050 for fiscal year 2022.

**12. CASH FLOWS**

Occasionally, Lazarus House Inc. receives donations of marketable securities, which are sent to a brokerage account in the name of Lazarus House Inc. 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 year 2022, were valued at \$35,772, and are included in support and revenue on the statements of activities.

Lazarus House Inc. received donations of services for building and vehicle repairs and maintenance of \$16,528 in fiscal year 2022, which is reported as in-kind revenues. (See note 10)

## LAZARUS HOUSE, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2022

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#### 13. UNEARNED REVENUE

At March 31, 2022 unearned revenue includes donations and fees, received in advance of events held in each subsequent year, of \$85,611.

#### 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 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 \$42,901 for fiscal year 2022. There were no amounts due to or from these related parties at March 31, 2022.

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 \$90,000 were made directly to the insurance carriers in fiscal year 2022.

#### 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. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

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

The notes are secured by the transitional housing property, located in Lawrence, Massachusetts. All notes mature on November 10, 2036. As of March 31, 2022, the guaranteed loan balance was \$2,610,000. (See footnote 4)

## LAZARUS HOUSE, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

MARCH 31, 2022

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#### 16. COMMITMENTS AND CONTINGENCIES

Lazarus House Inc. 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 Lazarus House, Inc. 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. Rent paid from Lazarus House Inc. to Lazarus Hope, LLC, between January 1, 2022 (date investor membership assumed by Lazarus House, Inc.), through March 31, 2022, the date of these financial statements, was \$39,628. This amount of intercompany rent has been eliminated in the combining statement of financial activities as of March 31, 2022.

Total rent paid in 2022, including rent to Lazarus Hope, LLC was \$100,964.

Minimum base rent expense for the next five years is:

2023	\$ 253,703
2024	263,378
2025	273,445
2026	283,923
2027	219,015

#### *Obligations of the Managing Member*

The managing member shall make additional capital contributions to Lazarus Hope, LLC to fund operating deficits in excess of funds in the operating reserve. The managing member shall not be required to make operating deficit capital contributions to pay principal on any indebtedness of the Lazarus Hope, LLC, or interest in excess of 20% of the interest accruing and payable under such indebtedness.

#### *Affordable Housing Agreement*

In November 2006, the Lazarus Hope, LLC entered into a Master Affordable Housing Agreement with DHCD and its administrator the Massachusetts Housing Finance Agency, CEDAC and the City of Lawrence, Massachusetts, to operate the Project as affordable housing, as noted in the agreement, for a period of thirty years from the date of the agreement. Additionally, DHCD upon the expiration of the agreement, shall have the right to purchase the Lazarus Hope, LLC interest in the Project at a price noted in the agreement.

#### 17. HEALTH INSURANCE

In October 2018, Lazarus House Inc. entered into a partially self-funded health insurance plan. All full-time employees of the Lazarus House Inc. have an option to participate in the health insurance plan. The cost of medical insurance is paid out of employee and employer contributions. Lazarus House Inc. has contracted with a third party to administer the plan. Under the current health plan, expiring in September 2022, Lazarus House Inc. estimates its full exposure, over the course of the plan year, to be approximately \$122,000. During the fiscal year ended March 31, 2022, the Lazarus House Inc. had accrued approximately \$31,000 of unpaid medical insurance benefits.

**LAZARUS HOUSE, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**MARCH 31, 2022**

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**18. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

Lazarus House Inc. 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 Lazarus House Inc.'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.

Cash	\$ 7,034,435
Accounts receivable, net, collected in less than one year	-
Other receivable, collected in less than one year	<u>-</u>
Total financial assets, excluding noncurrent receivables and non-liquid investments	7,034,435
Contractual or donor-imposed restrictions:	
Restricted for management expenses, project upkeep and certain other expenses for Capernaum Place	(104,195)
Donor imposed restrictions – private grants reserved for Life Skills Center, facility improvements, other educational and certain program costs	<u>(649,042)</u>
Financial assets available to meet cash need for expenditures within one year	\$ <u>6,281,198</u>

As disclosed in Note 9 to the financial statements, the Lazarus House Inc. governing board has placed internal restrictions on certain amounts collected through previous fundraising campaigns. The designated amount of \$2,295,097 at March 31, 2022, is 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 5, the Lazarus House Inc. has available a \$50,000 revolving credit loan.

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

**19. FUNDRAISING SPECIAL EVENTS**

Revenue reported on the consolidated 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 year ended March 31, 2022 was \$778,877.

**LAZARUS HOUSE, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
MARCH 31, 2022**

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**20. SUBSTANTIAL CONTRIBUTIONS**

In fiscal year 2022, the Organization received three substantial contributions totaling \$525,000. For purposes of these financial statements, substantial contributions are considered donations received by one donor of \$100,000 or greater, whether in a lump sum or in the aggregate.

**21. EMPLOYEE RETENTION CREDIT RECEIVABLE**

In March 2020 the Employee Retention Credit was enacted as a provision in the CARES Act. The refundable payroll tax credit was designed to encourage eligible employers to keep employees on their payroll, despite experiencing economic hardship related to Covid-19. The Consolidated Appropriations Act of 2020 further extended and expanded the credit. In November 2022, Lazarus House Inc. amended two of its Federal Forms 941 payroll tax returns to claim the refundable Employee Retention Credit (ERC) of \$429,430. Lazarus House Inc. qualified for the ERC due to a decline of its gross receipts in the second and third quarters of calendar 2021 relative to the same quarters in 2019. Lazarus House Inc. is confident that the qualifications for the ERC have been met and have recorded a receivable which is included in the Statement of Financial Position at March 31, 2022. The income from the ERC is included in Other Income on the Statement of Activities for the fiscal year ended March 31, 2022.

**22. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 23, 2022, 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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