

**December 31, 2006**

**FINANCIAL STATEMENTS**

**BOAZ AND RUTH, INC.**

**TABLE OF CONTENTS**

<b>Independent Auditor's Report</b> .....	1
<b>Financial Statements</b>	
Statement of Financial Position .....	2
Statement of Activities and Changes in Net Assets .....	3
Statement of Functional Expenses .....	4
Statement of Cash Flows .....	5
<b>Notes to Financial Statements</b> .....	6-9

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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**WELLS, COLEMAN  
& COMPANY, L.P.**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Boaz and Ruth, Inc.  
Richmond, Virginia

We have audited the accompanying statement of financial position of Boaz and Ruth, Inc. (a non-profit corporation), as of December 31, 2006, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Organization has not recorded donated goods sold through estate and furniture sales. In our opinion, accounting principles generally accepted in the United States of America require that such donated goods be included in the statement of financial position and statement of activities. The effect of this departure from accounting principles generally accepted in the United States of America on financial position, activities, and cash flows has not been determined.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Boaz and Ruth, Inc. as of December 31, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Wells, Coleman & Company, L.P.*

March 28, 2007



BOAZ AND RUTH, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended December 31, 2006

	Temporarily Restricted	Unrestricted	Total
<b>Revenue and Other Support</b>			
Contributions	\$ 165,500	\$ 745,220	\$ 910,720
Interest income	0	106	106
Program revenue	0	0	0
Cathedral Apprentice allocation	0	514,018	514,018
		<u>(79,707)</u>	
Net assets released from restrictions			
Satisfaction of capital	(108,122)	108,122	0
Improvements restrictions	(11,000)	11,000	0
Satisfaction of program restrictions			
<b>Total revenue and other support</b>	<u>46,378</u>	<u>1,378,466</u>	<u>1,424,844</u>
<b>Expenses and Losses</b>			
Program services	0	0	0
Cathedral Apprentice capitalized salaries	0	956,249	956,249
		<u>(79,707)</u>	
Supporting services			
Management and general	0	63,158	63,158
Fundraising	0	22,189	22,189
<b>Total expenses and losses</b>	<u>0</u>	<u>1,041,596</u>	<u>1,041,596</u>
<b>Change in net assets</b>	46,378	336,870	383,248
<b>Net Assets, beginning of year</b>	41,000	682,674	723,674
<b>Net Assets, end of year</b>	<u>\$ 87,378</u>	<u>\$1,019,544</u>	<u>\$1,106,922</u>

See accompanying notes to financial statements.

BOAZ AND RUTH, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2006

	Program Services	Management and General	Fundraising	Total
Salaries - staff	\$232,150	\$10,755	\$ 2,652	\$ 245,557
Salaries - trainees	458,812	0	0	458,812
Employee benefits	42,842	4,760	0	47,602
Payroll taxes	52,384	1,235	307	53,926
Payroll processing fees	0	6,406	0	6,406
<b>Total salaries and related expenses</b>	<b>786,188</b>	<b>23,156</b>	<b>2,959</b>	<b>812,303</b>
Advertising	4,287	0	0	4,287
Bad debts	5,165	0	0	5,165
Bank charges	3,046	0	0	3,046
Board expenses	370	0	0	370
Depreciation	20,079	2,231	0	22,310
Dues and subscriptions	1,349	0	0	1,349
Information systems expense	1,052	0	0	1,052
Insurance	20,112	2,235	0	22,347
Interest expense	8,199	911	0	9,110
Miscellaneous	728	0	0	728
Office expenses	10,926	2,731	0	13,657
Postage and shipping	0	644	215	859
Printing and publications	6,344	0	705	7,049
Professional fees	6,000	26,183	0	32,183
Professional fundraising fees	0	0	18,310	18,310
Program expenses	31,048	0	0	31,048
Repairs	5,172	575	0	5,747
Staff development	135	0	0	135
Taxes and licenses	4,074	1,019	0	5,093
Telephone	12,382	1,376	0	13,758
Travel	10,719	0	0	10,719
Utilities	18,874	2,097	0	20,971
<b>Total expenses</b>	<b>\$956,249</b>	<b>\$63,158</b>	<b>\$22,189</b>	<b>\$1,041,596</b>

See accompanying notes to financial statements.

BOAZ AND RUTH, INC.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2006

	\$383,248
<b>Cash Flows from Operating Activities</b>	
Change in net assets	
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities	
Depreciation	22,310
(Increase) decrease in operating assets	(98,259)
Accounts receivable	(172,220)
Pledges receivable	6,892
Increase (decrease) in operating liabilities	205
Accounts payable	(888)
Accrued liabilities	(253)
Payroll liabilities	<u>141,035</u>
Sales tax payable	(171,823)
<b>Net cash and cash equivalents provided by operating activities</b>	<u>141,035</u>
<b>Cash Flows from Investing Activities</b>	
Purchase of property and equipment	(171,823)
<b>Net cash and cash equivalents used by investing activities</b>	<u>(171,823)</u>
<b>Cash Flows from Financing Activities</b>	
Proceeds from line of credit	232,347
Payments of line of credit	(162,547)
Payments of capital lease obligation	(1,009)
Principal payments of notes payable	<u>(4,482)</u>
<b>Net cash and cash equivalents provided by financing activities</b>	<u>64,309</u>
<b>Net increase in cash and cash equivalents</b>	33,521
<b>Cash and Cash Equivalents, beginning</b>	<u>5,768</u>
<b>Cash and Cash Equivalents, ending</b>	<u>\$ 39,289</u>
<b>Supplemental Disclosures of Cash Flow Information</b>	
Cash paid during the year for interest	\$ 8,905

See accompanying notes to financial statements.

**BOAZ AND RUTH, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**1. Summary of Significant Accounting Policies**

*Nature of Activities:* Boaz and Ruth, Inc. is a non-profit, faith-based initiative designed to bridge the gap between those who possess wealth and privilege and those who do not. The Organization provides job training, life skills training, and educational opportunities to enable unemployed and under-employed individuals to move from poverty to self-sufficiency.

*Basis of Presentation:* Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations." Under those provisions, net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the Organization maintain them permanently. The donors of such assets permit the Organization to use the income earned on the assets.

*Use of Estimates:* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Cash and Cash Equivalents:* The Organization considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents.

*Property and Equipment:* Property and equipment are stated at cost. Acquisitions of new buildings, equipment and land improvements, and major betterments are capitalized. Repairs and maintenance costs are expensed as incurred. Depreciation is provided by use of the straight-line method and accelerated methods over the following estimated useful lives of the assets:

Building	39
Office and computer equipment	5 - 7
Automotive equipment	5
Cafe equipment	5
Computer software	3
	<u>Years</u>

*Contributions:* Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are

BOAZ AND RUTH, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2006

1. Summary of Significant Accounting Policies - Continued

reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization had no permanently restricted net assets at December 31, 2006.

*Promises to Give:* Unconditional promises to give (pledges) are recognized as assets and revenue in the period the promise is received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Organization uses the allowance method for estimates of uncollectible pledges.

*Income Tax Status:* The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is exempt from Federal and Virginia income taxes. The Organization is not considered a private foundation.

*Advertising Costs:* Advertising costs are expensed in the period they are incurred and amounted to \$4,287 in 2006.

*Donated Goods:* The Organization does not record the value of goods donated to its estate and furniture sales. This practice is not in accordance with generally accepted accounting principles.

2. Contributions and Grants and Restrictions on Net Assets

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. The Organization received contributions and grants that were restricted to building purchase or construction and to program expenses. Expanded portions of the temporarily restricted contributions and grants are reported in the statement of activities as net assets released from restrictions. Unspent remainders are classified as temporarily restricted net assets.

Temporarily restricted net assets at December 31, 2006, are available for the following purposes or periods:

Capital improvements

\$87,378

3. Contributed Services

The Organization recognizes contribution revenue for certain donated professional services at fair value. Revenue from contributed services is shown as contributions. Expenses related to these contributed services are shown in professional expenses. For the year ended December 31, 2006, the Organization received contributed services in the amount of \$26,158 for legal and program-related computer services.

BOAZ AND RUTH, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2006

3. Contributed Services - Continued

The Organization also receives a significant amount of contributed services from unpaid volunteers who assist the Organization's many projects. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort under SFAS No. 116 have not been satisfied.

4. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

5. Capital Leases

The Organization leases telephone equipment under a five-year capital lease which expires in 2010. The equipment is capitalized using interest rates appropriate at the inception of the related lease. The equipment is amortized over five years, with the amortization included in depreciation expense. The lease obligation and capitalized cost at the time of inception was \$6,040.

Future minimum lease payments related to this equipment as of December 31, 2006, are as follows:

Year	Amount
2007	\$1,505
2008	1,505
2009	1,505
2010	1,379
	<u>5,894</u>
	Amount representing interest
	(943)
	<u>4,951</u>
	Present value of minimum lease payments
	Current portion
	(1,104)
	<u>\$3,847</u>

6. Notes Payable

The Organization maintains three revolving lines of credit. Interest at the bank's prime rate plus .5% is payable monthly. At December 31, 2006, the rate of interest was 8.75%, the Organization owed \$134,800 on the lines of credit, and \$250,000 was available for additional borrowing.

The Organization is obligated under a \$25,875 note payable with SunTrust Bank requiring monthly payments of \$525, including interest at 7.88%, and maturing September 15, 2010, secured by a vehicle. The balance outstanding at December 31, 2006, is \$20,371, of which \$4,876 represents the portion due within a year and \$15,495 represents the amount due after one year.

**BOAZ AND RUTH, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2006**

**6. Notes Payable - Continued**

Note payable debt repayment requirements in the succeeding five years are as follows:

2007	\$4,876
2008	\$5,274
2009	\$5,705
2010	\$4,516
2011	\$ 0

Interest expense on all notes payable and the capital lease obligation amounted to \$9,110 in 2006.

**7. Cathedral Apprentice Allocation and Capitalized Salaries Expense**

The Organization operates a program called Cathedral Apprentices in which trainees learn building repairs and restoration. The Organization utilizes this group in its own building renovations. Allocation of the cost of this labor is included in program revenue and program expense in the accounting records of the Organization.