

**BOAZ AND RUTH, INC.
AND AFFILIATES**

**CONSOLIDATED FINANCIAL
STATEMENTS**

December 31, 2007

TABLE OF CONTENTS

Independent Auditor's Report	1
Consolidated Financial Statements	
Consolidated Statement of Financial Position	2-3
Consolidated Statement of Activities and Changes in Net Assets	4
Consolidated Statement of Functional Expenses.....	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7-11



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of Boaz and Ruth, Inc. (a non-profit corporation), as of December 31, 2007, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated statement of financial position and consolidated 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 consolidated 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, 2007, 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.L.P.

April 17, 2008

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BOAZ AND RUTH, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2007

ASSETS

Current Assets

Cash and cash equivalents	\$ 36,234
Accounts receivable	54,762
Pledges receivable	594,721
Other current assets	<u>3,277</u>
Total current assets	<u>688,994</u>

Property, Plant, and Equipment

Land and buildings	1,762,619
Vehicles	37,602
Computer software and equipment	17,753
Office equipment	9,267
Café equipment	<u>5,754</u>
	1,832,995
Accumulated depreciator	<u>(77,927)</u>
Net property, plant, and equipmen	<u>1,755,068</u>

\$ 2,444,062

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS

Current Liabilities

Notes payable - line of credit	\$	384,624
Current portion of notes payable		12,544
Current portion of capital lease obligation		1,207
Accounts payable		106,482
Accrued expenses		1,027
Sales tax payable		423
Total current liabilities		<u>506,307</u>

Long-Term Liabilities

Notes payable		356,627
Capital lease obligator		2,639
Total long-term liabilities		<u>359,266</u>

Total liabilities **865,573**

Net Assets

Unrestricted		1,451,959
Temporarily restrictec		126,530
Total net assets		<u>1,578,489</u>

\$ 2,444,062

BOAZ AND RUTH, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Other Support			
Contributions	\$ 927,901	\$ 219,432	\$ 1,147,333
Interest income	33	-	33
Program revenue	\$ 758,929	-	-
Cathedral Apprentice allocatior	<u>(262,553)</u>	496,376	496,376
 Net assets released from restrictions			
Satisfaction of capital improvements restrictions	<u>180,280</u>	<u>(180,280)</u>	<u>-</u>
 Total revenue and other support	 <u>1,604,590</u>	 <u>39,152</u>	 <u>1,643,742</u>
 Expenses and Losses			
Program services	1,265,277		
Cathedral Apprentice capitalized salaries	<u>(262,553)</u>	1,002,724	1,002,724
 Supporting services			
Management and general	125,088	-	125,088
Fundraising	<u>44,363</u>	<u>-</u>	<u>44,363</u>
 Total expenses and losses	 <u>1,172,175</u>	 <u>-</u>	 <u>1,172,175</u>
 Change in net assets	 432,415	 39,152	 471,567
 Net Assets, beginning of year	 <u>1,019,544</u>	 <u>87,378</u>	 <u>1,106,922</u>
 Net Assets, end of year	 <u>\$ 1,451,959</u>	 <u>\$ 126,530</u>	 <u>\$ 1,578,489</u>

See accompanying notes to consolidated financial statements.

BOAZ AND RUTH, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2007

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries - staff	\$ 281,473	\$ 48,642	\$ 4,200	\$ 334,315
Salaries - trainees	187,276	-	-	187,276
Employee benefits	52,235	8,894	-	61,129
Payroll taxes	54,925	9,492	820	65,237
Payroll processing fees	-	12,159	-	12,159
Total salaries and related expenses	575,909	79,187	5,020	660,116
Advertising	2,605	-	-	2,605
Bad debts	4,704	-	-	4,704
Bank charges	9,423	-	-	9,423
Board expenses	678	-	-	678
Depreciation	20,129	2,236	-	22,365
Dues and subscriptions	414	-	-	414
Information systems expense	6,337	-	-	6,337
Insurance	31,411	3,490	-	34,901
Interest expense	16,819	1,869	-	18,688
Miscellaneous	(405)	-	-	(405)
Office expenses	13,261	3,315	-	16,576
Postage and shipping	-	1,202	401	1,603
Printing and publications	11,314	-	1,257	12,571
Professional fees	6,414	27,344	-	33,758
Professional fundraising fees	-	-	37,685	37,685
Program expenses	227,157	-	-	227,157
Repairs	2,959	329	-	3,288
Staff development	851	-	-	851
Taxes and licenses	2,504	626	-	3,130
Telephone	18,495	2,055	-	20,550
Travel	20,835	-	-	20,835
Utilities	30,910	3,435	-	34,345
Total expenses	<u>\$ 1,002,724</u>	<u>\$ 125,088</u>	<u>\$ 44,363</u>	<u>\$ 1,172,175</u>

See accompanying notes to consolidated financial statements.

BOAZ AND RUTH, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2007

Cash Flows from Operating Activities	
Change in net assets	\$ 471,567
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities	
Depreciation	22,365
(Increase) decrease in operating assets	
Accounts receivable	45,747
Pledges receivable	(177,525)
Other current assets	(1,951)
Increase (decrease) in operating liabilities	
Accounts payable	93,337
Accrued expenses	462
Sales tax payable	<u>(139)</u>
Net cash and cash equivalents provided by operating activities	<u>453,863</u>
Cash Flows from Investing Activities	
Purchase of property and equipment	<u>(1,054,436)</u>
Net cash and cash equivalents used by investing activities	<u>(1,054,436)</u>
Cash Flows from Financing Activities	
Proceeds from line of credit	742,646
Payments of line of credit	(492,822)
Payments of capital lease obligation	(1,104)
Proceeds from notes payable	355,667
Principal payments of notes payable	<u>(6,869)</u>
Net cash and cash equivalents provided by financing activities	<u>597,518</u>
Net decrease in cash and cash equivalents	(3,055)
Cash and Cash Equivalents, beginning	<u>39,289</u>
Cash and Cash Equivalents, ending	<u>\$ 36,234</u>
Supplemental Disclosures of Cash Flow Information	
Cash paid during the year for interest	\$ 18,688

See accompanying notes to consolidated financial statements.

BOAZ AND RUTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

1. Summary of Significant Accounting Policies

These consolidated financial statements include the accounts of Boaz and Ruth, Inc., 1213 Giles, LLC, and HP Firehouse LP. All intercompany balances and transactions have been eliminated. See Notes 8 and 9.

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:

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

BOAZ AND RUTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2007

1. Summary of Significant Accounting Policies - Continued

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 restricted net assets. When donor restrictions are met, the contributions are 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, 2007.

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 within 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.

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 \$2,605 in 2007.

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. Expended 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, 2007, are available for the following purposes or periods:

Capital improvements	\$ 126,530
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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, 2007, the Organization received contributed services in the amount of \$21,000 for legal and program-related computer services.

BOAZ AND RUTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2007

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, 2007, are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 1,505
2009	1,505
2010	<u>1,379</u>
Total minimum lease payments	4,389
Amount representing interest	<u>(543)</u>
Present value of minimum lease payments	3,846
Current portion	<u>(1,207)</u>
	<u><u>\$ 2,639</u></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, 2007, the rate of interest was 7%, the Organization owed \$384,624 on the lines of credit, and \$376 was available for additional borrowing.

BOAZ AND RUTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2007

6. Notes Payable - Continued

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, 2007, is \$15,550 of which \$5,274 represents the portion due within a year and \$10,276 represents the amount due after one year.

The Organization purchased three buildings in 2007. Each is financed by a mortgage: two by First Market Bank and one by a private lender. Terms of the mortgage loans are as follows:

<u>Principal Borrowed</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 12/31/2007</u>
\$ 102,667	5%	June 1, 2025	\$ 101,467
\$ 150,000	7.75%	October 1, 2017	\$ 149,675
\$ 103,000	7.75%	August 1, 2017	\$ 102,479

Note payable debt repayment requirements for the vehicle and mortgage notes in the succeeding five years are as follows:

2008	\$ 12,544
2009	\$ 13,486
2010	\$ 12,810
2011	\$ 8,843
2012	\$ 9,399

Interest expense on all notes payable and the capital lease obligation amounted to \$18,688 in 2007.

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.

8. 1213 Giles, LLC

The Organization is the 100% owner of 1213 Giles, LLC, organized in 2007 to renovate rental properties. Its assets, liabilities, and income and expense items have been consolidated in these financial statements.

BOAZ AND RUTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2007

9. HP Firehouse LP

HP Firehouse LP was organized in 2007 as a for-profit entity to hold the firehouse property and to sell tax credits for its renovation. There was no activity in 2007. The firehouse renovations were completed in 2008, and retail activity began. Boaz and Ruth will be reimbursed for renovations from the sale of tax credits. At the end of five years the property will revert to Boaz and Ruth.