

**BOAZ AND RUTH, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2005**

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**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, 2005, 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, accounting principles generally accepted in the United States of America require that donated goods be recorded. The Organization has not recorded donated goods sold through estate and furniture sales. 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 disclosed.

In our opinion, except for the effect of not recording donated goods, the financial statements referred to above present fairly, in all material respects, the financial position of Boaz and Ruth, Inc. as of December 31, 2005, 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.*

January 30, 2006

**BOAZ AND RUTH, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2005**

**ASSETS**

<b>Current Assets</b>	
Cash and cash equivalents	\$ 5,768
Accounts receivable	2,250
Pledges receivable	244,976
Other current assets	1,326
<b>Total current assets</b>	<b><u>254,320</u></b>
<b>Property, Plant, and Equipment</b>	
Land and buildings	540,087
Vehicle	33,875
Computer software and equipment	17,753
Office equipment	9,267
Café equipment	5,754
	<u>606,736</u>
Accumulated depreciation	<u>(33,252)</u>
<b>Net property, plant, and equipment</b>	<b><u>573,484</u></b>
	 <b><u>\$827,804</u></b>

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>	
Notes payable - line of credit	\$ 65,000
Current portion of note payable	4,508
Current portion of capital lease obligation	1,009
Accounts payable	6,253
Accrued interest	360
Payroll liabilities	888
Sales tax payable	816
<b>Total current liabilities</b>	<b><u>78,834</u></b>
<b>Long-Term Liabilities</b>	
Note payable	20,345
Capital lease obligation	4,951
<b>Total long-term liabilities</b>	<b><u>25,296</u></b>
<b>Total liabilities</b>	<b><u>104,130</u></b>
<b>Net Assets</b>	
Unrestricted	682,674
Temporarily restricted	41,000
<b>Total net assets</b>	<b><u>723,674</u></b>
	 <b><u>\$827,804</u></b>

See accompanying notes to financial statements.

**BOAZ AND RUTH, INC.**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

For the year ended December 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue and Other Support</b>			
Contributions	\$480,162	\$104,000	\$584,162
Interest income	1,642	0	1,642
Program revenue	\$203,983		
Cathedral Apprentice allocation	<u>(28,707)</u>	175,276	175,276
 Net assets released from restrictions			
Satisfaction of capital improvements restrictions	15,000	(15,000)	0
Satisfaction of program restrictions	<u>65,500</u>	<u>(65,500)</u>	<u>0</u>
 <b>Total revenue and other support</b>	 <b><u>737,580</u></b>	 <b><u>23,500</u></b>	 <b><u>761,080</u></b>
 <b>Expenses and Losses</b>			
Program services	590,734		
Cathedral Apprentice capitalized salaries	<u>(28,707)</u>	562,077	562,027
 Supporting services			
Management and general	40,052	0	40,052
Fundraising	<u>14,746</u>	<u>0</u>	<u>14,746</u>
 <b>Total expenses and losses</b>	 <b><u>616,825</u></b>	 <b><u>0</u></b>	 <b><u>616,825</u></b>
 <b>Change in net assets</b>	 <b>120,755</b>	 <b>23,500</b>	 <b>144,255</b>
 <b>Net Assets, beginning of year</b>	 <b><u>561,919</u></b>	 <b><u>17,500</u></b>	 <b><u>579,419</u></b>
 <b>Net Assets, end of year</b>	 <b><u>\$682,674</u></b>	 <b><u>\$ 41,000</u></b>	 <b><u>\$723,674</u></b>

See accompanying notes to financial statements.

BOAZ AND RUTH, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2005

	Program <u>Services</u>	Management and <u>General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries - staff	\$183,029	\$ 8,483	\$ 2,100	\$193,612
Salaries - trainees	150,562	0	0	150,562
Employee benefits	15,979	1,776	0	17,755
Payroll taxes	27,456	649	161	28,266
Payroll processing fees	<u>0</u>	<u>4,870</u>	<u>0</u>	<u>4,870</u>
<b>Total salaries and related expenses</b>	<b>377,026</b>	<b>15,778</b>	<b>2,261</b>	<b>395,065</b>
Advertising	5,979	0	0	5,979
Bank charges	2,075	0	0	2,075
Board expenses	707	0	0	707
Consignment payments	442	0	0	442
Contract labor	573	0	0	573
Depreciation	11,047	1,227	0	12,274
Dues and subscriptions	860	0	0	860
Information systems expense	2,243	0	0	2,243
Insurance	15,538	1,726	0	17,264
Interest expense	5,224	580	0	5,804
Miscellaneous	3,566	892	0	4,458
Office expenses	7,001	1,750	0	8,751
Postage and shipping	0	670	224	894
Printing and publications	3,964	0	440	4,404
Professional fees	36,250	14,500	0	50,750
Professional fundraising fees	0	0	11,821	11,821
Program expenses	56,154	0	0	56,154
Repairs	3,295	366	0	3,661
Staff development	1,949	0	0	1,949
Taxes and licenses	2,607	652	0	3,259
Telephone	4,410	490	0	4,900
Travel	8,324	0	0	8,324
Utilities	<u>12,793</u>	<u>1,421</u>	<u>0</u>	<u>14,214</u>
<b>Total expenses</b>	<b><u>\$562,027</u></b>	<b><u>\$40,052</u></b>	<b><u>\$14,746</u></b>	<b><u>\$616,825</u></b>

See accompanying notes to financial statements.

**BOAZ AND RUTH, INC.**

**STATEMENT OF CASH FLOWS**

**For the year ended December 31, 2005**

<b>Cash Flows from Operating Activities</b>	
Change in net assets	\$144,255
Adjustments to reconcile change in net assets to net cash and cash equivalents (used) by operating activities	
Depreciation	12,274
Contributions in kind	(5,000)
(Increase) decrease in operating assets	
Accounts receivable	(2,250)
Pledges receivable	(147,526)
Other current assets	272
Increase (decrease) in operating liabilities	
Accounts payable	(4,511)
Payroll liabilities	888
Sales tax payable	<u>816</u>
<b>Net cash and cash equivalents (used) by operating activities</b>	<u><b>(782)</b></u>
<b>Cash Flows from Investing Activities</b>	
Purchase of property and equipment	<u>(85,686)</u>
<b>Net cash and cash equivalents (used) by investing activities</b>	<u><b>(85,686)</b></u>
<b>Cash Flows from Financing Activities</b>	
Proceeds from line of credit	50,000
Payments of capital lease obligation	(80)
Principal payments of notes payable	<u>(51,022)</u>
<b>Net cash and cash equivalents (used) by financing activities</b>	<u><b>(1,102)</b></u>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(87,570)</b>
<b>Cash and Cash Equivalents, beginning</b>	<u><b>93,338</b></u>
<b>Cash and Cash Equivalents, ending</b>	<u><b>\$ 5,768</b></u>
<b>Supplemental Disclosures of Cash Flow Information</b>	
Cash paid during the year for interest	\$ 5,444
<b>Non-cash Investing and Financing Activities</b>	
Vehicle purchase financed by a loan	\$ 25,875

See accompanying notes to financial statements.

BOAZ AND RUTH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

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 filled 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.

*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

*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 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, 2005.

BOAZ AND RUTH, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005

1. Summary of Significant Accounting Policies - Continued

*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 \$5,979 in 2005.

*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. The Organization has estimated the value of goods donated during 2005 at approximately \$148,700, and the value of inventory at year-end at approximately \$185,000.

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 restriction. Unspent remainders are classified as temporarily restricted net assets.

Temporarily restricted net assets at December 31, 2005, are available for the following purposes or periods:

Capital improvements	\$30,000
Program expenses	<u>11,000</u>
	<u>\$41,000</u>

3. Contributed Services

The Organization recognizes contribution revenue for certain professional services received at fair value. Revenue from contributed services is shown as contributions. Expenses related to these contributed services are shown in professional expenses. As of December 31, 2005, the Organization received contributed services in the amount of \$48,250 for legal and program-related computer, construction, and counseling services.

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.

BOAZ AND RUTH, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005

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, 2005, are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$1,505
2007	1,505
2008	1,505
2009	1,505
2010	<u>1,379</u>
Total minimum lease payments	7,399
Amount representing interest	(1,439)
Present value of minimum lease payments	5,960
Current portions	<u>(1,009)</u>
	<b><u>\$4,951</u></b>

6. **Note Payable**

The Organization maintains a revolving line of credit. Interest at the bank's prime plus 1% is payable monthly. At December 31, 2005, the rate of interest was 8.25%, and the Organization owed \$65,000 on the line of credit.

The Organization entered into 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, 2005, is \$24,853, of which \$4,508 represents the current portion due within a year and \$20,345 represents the amount due after one year.

**BOAZ AND RUTH, INC.**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2005**

**6. Note Payable - Continued**

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

2006	\$4,508
2007	\$4,876
2008	\$5,274
2009	\$5,705
2010	\$4,490

Interest expense on all notes payable and the capital lease obligation amounted to \$5,804 in 2005.

**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.