

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

**CONSOLIDATED FINANCIAL
STATEMENTS**

December 31, 2008

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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) and Affiliates, as of December 31, 2008, 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, changes in net assets, 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. and Affiliates as of December 31, 2008, and the changes in their net assets and their 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.

May 5, 2009

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BOAZ AND RUTH, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2008

ASSETS

Current Assets

Cash and cash equivalents	\$	34,273
Accounts receivable		87,673
Pledges receivable		585,887
Other current assets		1,651
Total current assets		<u>709,484</u>

Property, Plant, and Equipment

Land and buildings		1,833,524
Vehicles		37,602
Computer software and equipment		17,753
Office equipment		9,267
Café equipment		5,754
		<u>1,903,900</u>
Accumulated depreciation		(128,405)
Net property, plant, and equipment		<u>1,775,495</u>

Other Assets

Construction in progress		<u>612,294</u>
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\$ 3,097,273

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS

Current Liabilities

Notes payable - lines of credit	\$ 109,000
Current portion of notes payable	16,619
Current portion of capital lease obligation	1,321
Accounts payable	28,367
Accrued expenses	565
Sales tax payable	759
Total current liabilities	<u>156,631</u>

Long-Term Liabilities

Construction loan	499,120
Notes payable	534,550
Capital lease obligation	1,172
Total long-term liabilities	<u>1,034,842</u>

Total liabilities 1,191,473

Non-Controlling Interest in Affiliate 42,629

Net Assets

Unrestricted	1,733,751
Temporarily restricted	129,420
Total net assets	<u>1,863,171</u>

\$ 3,097,273

BOAZ AND RUTH, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended December 31, 2008

		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Other Support				
Contributions		\$ 907,989	\$ 585,218	\$ 1,493,207
Program revenue	\$ 1,276,253			
Cathedral Apprentice allocation	<u>(134,386)</u>	1,141,867	-	1,141,867
Net assets released from restrictions				
Satisfaction of capital improvements restrictions		<u>582,328</u>	<u>(582,328)</u>	<u>-</u>
Total revenue and other support		<u>2,632,184</u>	<u>2,890</u>	<u>2,635,074</u>
Expenses and Losses				
Program services	2,328,526			
Cathedral Apprentice capitalized salaries	<u>(134,386)</u>	2,194,140	-	2,194,140
Supporting services				
Management and general		273,742	-	273,742
Fundraising		<u>53,027</u>	<u>-</u>	<u>53,027</u>
Total expenses and losses		<u>2,520,909</u>	<u>-</u>	<u>2,520,909</u>
Change in net assets		111,275	2,890	114,165
Contributed capital - controlling interest in affiliate		170,517	-	170,517
Net Assets, beginning of year		<u>1,451,959</u>	<u>126,530</u>	<u>1,578,489</u>
Net Assets, end of year		<u>\$ 1,733,751</u>	<u>\$ 129,420</u>	<u>\$ 1,863,171</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, 2008

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries - staff	\$ 274,135	\$ 72,466	\$ 6,765	\$ 353,366
Salaries - trainees	483,746	-	-	483,746
Employee benefits	38,641	6,819	-	45,460
Payroll taxes	70,238	6,716	627	77,581
Payroll processing fees	-	11,104	-	11,104
Total salaries and related expenses	866,760	97,105	7,392	971,257
Advertising	1,073	-	-	1,073
Bank charges	3,817	-	-	3,817
Board expenses	863	-	-	863
Depreciation	45,430	5,048	-	50,478
Dues and subscriptions	1,157	-	-	1,157
Information systems expense	11,557	-	-	11,557
Insurance	33,670	3,741	-	37,411
Interest expense	52,381	5,820	-	58,201
Miscellaneous	4,282	-	-	4,282
Office expenses	10,085	2,521	-	12,606
Postage and shipping	-	2,962	987	3,949
Printing and publications	12,437	-	1,382	13,819
Professional fees	34,377	146,553	-	180,930
Professional fundraising fees	-	-	43,266	43,266
Program expenses	1,004,703	-	-	1,004,703
Rent	18,000	-	-	18,000
Repairs	18,737	2,082	-	20,819
Staff development	576	-	-	576
Taxes and licenses	10,630	2,658	-	13,288
Telephone	13,106	1,456	-	14,562
Travel	16,334	-	-	16,334
Utilities	34,165	3,796	-	37,961
Total expenses	\$ 2,194,140	\$ 273,742	\$ 53,027	\$ 2,520,909

See accompanying notes to consolidated financial statements.

BOAZ AND RUTH, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2008

Cash Flows from Operating Activities	
Change in net assets	\$ 114,165
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities	
Depreciation	50,478
(Increase) decrease in operating assets	
Accounts receivable	(32,911)
Pledges receivable	8,834
Other current assets	1,626
Increase (decrease) in operating liabilities	
Accounts payable	(78,115)
Accrued expenses	(462)
Sales tax payable	<u>336</u>
Net cash and cash equivalents provided by operating activities	<u>63,951</u>
Cash Flows from Investing Activities	
Purchase of property and equipment and construction payments	<u>(683,199)</u>
Net cash and cash equivalents used by investing activities	<u>(683,199)</u>
Cash Flows from Financing Activities	
Proceeds from notes payable	664,042
Construction loan and line of credit draws	179,025
Principal payments of notes payable	(111,948)
Payments of line of credit	(325,625)
Payments of capital lease obligation	(1,353)
Capital contributed to affiliate	<u>213,146</u>
Net cash and cash equivalents provided by financing activities	<u>617,287</u>
Net decrease in cash and cash equivalents	(1,961)
Cash and Cash Equivalents, beginning	<u>36,234</u>
Cash and Cash Equivalents, ending	<u>\$ 34,273</u>
Supplemental Disclosures of Cash Flow Information	
Cash paid during the year for interest	\$ 71,792
Supplemental Disclosures of Noncash Financing Transactions	
Repayment of borrowing and payment of loan fees	\$ 370,095

See accompanying notes to consolidated financial statements.

BOAZ AND RUTH, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

1. Summary of Significant Accounting Policies

These consolidated financial statements include the accounts of Boaz and Ruth, Inc., 1213 Giles, LLC, Boaz and Ruth Community Development Corporation, and HP Firehouse LP. All intercompany balances and transactions have been eliminated.

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. Notes 8 through 10 present information regarding the affiliated entities.

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, 2008

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, 2008.

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 \$1,073 in 2008.

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, 2008, are available for the following purposes or periods:

Capital improvements	\$ 129,420
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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, 2008, the Organization received contributed services in the amount of \$123,722 for legal services relating to establishment of affiliated entities and acquisition of real property.

BOAZ AND RUTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

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 benefitted.

5. Capital Lease

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, 2008, are as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 1,505
2010	<u>1,379</u>
Total minimum lease payments	2,884
Amount representing interest	<u>(391)</u>
Present value of minimum lease payments	2,493
Current portion	<u>(1,321)</u>
	<u>\$ 1,172</u>

6. Notes Payable

The Organization maintains two revolving lines of credit. At December 31, 2008, the Organization owed \$50,000 and \$59,000 on the lines, with interest payable monthly at the banks' prime rate plus 1.5% and 1% respectively. At December 31, 2008, the rates were 4.75% and 4.5%. The Organization also entered into a \$951,150 construction loan payable, secured by five properties, with an outstanding balance of \$499,120 and an interest rate of 5% at December 31, 2008.

BOAZ AND RUTH, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2008

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%, maturing September 15, 2010, and secured by a vehicle. The balance outstanding at December 31, 2008 is \$10,300, of which \$5,705 represents the portion due within a year and \$4,595 represents the amount due after one year.

The Organization is obligated under four mortgages for buildings purchased in prior years. Three of the mortgages are held 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 12/31/2008</u>
\$ 102,667	5.00%	June 1, 2025	\$ 98,439
\$ 150,000	7.75%	October 1, 2017	\$ 145,746
\$ 103,000	7.75%	August 1, 2017	\$ 100,960
\$ 199,942	6.84%	October 31, 2013	\$ 195,724

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

2009	\$ 16,619
2010	\$ 16,246
2011	\$ 12,441
2012	\$ 195,035
2013	\$ 10,055

Interest expense on all notes payable and the capital lease obligation amounted to \$71,029 in 2008, of which \$12,828 was capitalized.

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, 2008

9. Boaz and Ruth Community Development Corporation

Boaz and Ruth, Inc. is a 100% owner of Boaz and Ruth Community Development Corporation, which was established in 2007 to develop and manage the firehouse property. The Corporation is considered a disregarded entity for federal income tax purposes. Its assets, liabilities, and income and expense items have been consolidated in these financial statements.

10. HP Firehouse LP

Boaz and Ruth, Inc. is an 80% owner of HP Firehouse LP. The limited partnership 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. At the end of five years the property will revert to Boaz and Ruth. The assets, liabilities, and income and expense items of HP Firehouse LP have been consolidated in these financial statements. The 80% interest is reported with unrestricted net assets, with the remaining 20% reported as a non-controlling interest.