BOAZ AND RUTH, INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

BOAZ AND RUTH, INC.

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Boaz and Ruth, Inc.
Richmond, VA

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Boaz and Ruth, Inc. and its affiliates which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation on the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Boaz and Ruth, Inc. and its affiliates as of December 31, 2015 and 2014, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

AG Reese & Associates, P.C.

Richmond, Virginia
May 20, 2016

BOAZ AND RUTH, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

Assets	**2015**	**2014**
Current Assets		
Cash and cash equivalents	$ 184,352	$ 81,100
Accounts and grants receivable, less allowance for doubtful accounts of $0 and $5,000, respectively	10,146	27,211
Prepaid expenses	10,186	19,146
Other assets	3,728	4,295
Total Current Assets	208,412	131,752
Plant, Property and Equipment		
Land	404,740	427,740
Buildings	1,365,000	3,301,230
Vehicles	32,375	36,102
Computer software and equipment	24,321	18,507
Office equipment	9,267	9,267
Café equipment	5,754	5,754
Construction in progress	21,031	21,031
	1,862,488	3,819,631
Less accumulated depreciation	(373,769)	(651,285)
	1,488,719	3,168,346
Other Assets		
Loan costs, net accumulated amortization of $1,160 and $892, respectively	6,895	7,163
Prepaid expense, less current portion of $10,186 and 19,146, respectively	45,712	50,750
	52,607	57,913
Total Assets	$ 1,749,738	$ 3,358,011

Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 56,415	$ 111,457
Deferred revenue	4,879	4,555
Accrued expenses and employee payroll deductions	12,313	26,959
Other liabilities	3,340	790
Notes payable, current maturities of long-term debt	26,152	720,535
Total Current Liabilities	103,099	864,296
Long-Term Liabilities		
Deferred revenue, less current portion	45,712	50,750
Long-term debt, less current maturities	778,937	804,301
Total Long-Term Liabilities	824,649	855,051
Total Liabilities	927,748	1,719,347
Net Assets		
Unrestricted	773,740	1,600,464
Temporarily restricted	48,250	38,200
Total Net Assets	821,990	1,638,664
Total Liabilities and Net Assets	$ 1,749,738	$ 3,358,011

See Notes to Consolidated Financial Statements

BOAZ AND RUTH, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and other support			
Contributions	$ 285,719	$ 81,250	$ 366,969
Program revenue	188,206	-	188,206
Special events	31,345	-	31,345
Miscellaneous	2,695	-	2,695
Other revenue	637,897	-	637,897
Net assets released from restrictions	71,200	(71,200)	-
Total revenue and other support	1,217,062	10,050	1,227,112
Expenses			
Program services	426,732	-	426,732
Management	48,148	-	48,148
Fundraising	20,782	-	20,782
Total Expenses	495,662	-	495,662
Change in Net Assets	721,400	10,050	731,450
Net assets, beginning of year	1,600,464	38,200	1,638,664
Adjustments to net assets:			
Restatement of asset values	(1,548,124)	-	(1,548,124)
Net assets, end of year	$ 773,740	$ 48,250	$ 821,990

See Notes to Consolidated Financial Statements

BOAZ AND RUTH, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Total
Revenue and other support			
Contributions	$ 415,336	$ 88,799	$ 504,135
Program revenue	301,288	-	301,288
Special events	66,173	-	66,173
Miscellaneous	1,797	-	1,797
Net assets released from restrictions	134,343	(134,343)	-
Total revenue and other support	918,937	(45,544)	873,393
Expenses			
Program services	759,406	-	759,406
Management	131,833	-	131,833
Fundraising	25,148	-	25,148
Total Expenses	916,387	-	916,387
Change in Net Assets	2,550	(45,544)	(42,994)
Net assets, beginning of year	1,597,914	83,744	1,681,658
Net assets, end of year	$ 1,600,464	$ 38,200	$ 1,638,664

See Notes to Consolidated Financial Statements

BOAZ AND RUTH, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services	Management and General	Fund-Raising	Total Expenses
Salaries and wages	$ 155,474	$ 8,814	$ 12,000	$ 176,288
Employee benefits	3,228	1,100	-	4,328
Payroll taxes	14,874	843	1,148	16,865
Total salaries & related expenses	173,576	10,757	13,148	197,481
Bank charges	6,438	-	-	6,438
Board expenses	-	3,273	-	3,273
Depreciation and amortization	45,608	2,500	-	48,108
Dues and subscriptions	424	-	-	424
Information services expense	1,117	1,100	2,472	4,689
Insurance	25,391	1,500	-	26,891
Interest expense	18,391	950	-	19,341
Miscellaneous	660	-	-	660
Office expense	1,009	930	930	2,869
Payroll processing fees	600	24	24	648
Postage and shipping	170	150	150	470
Printing and publications	500	-	458	958
Professional development	400	400	400	1,200
Professional fees	4,496	18,464	-	22,960
Professional fundraising fees	-	-	-	-
Program	41,356	-	-	41,356
Rent	768	760	760	2,288
Repairs	5,410	-	-	5,410
Taxes and licenses	13,053	550	-	13,603
Telephone	2,456	2,320	2,440	7,216
Utilities	84,909	4,470	-	89,379
Total Expenses	$ 426,732	$ 48,148	$ 20,782	$ 495,662

See Notes to Consolidated Financial Statements

BOAZ AND RUTH, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services	Management and General	Fund-Raising	Total Expenses
Salaries and wages	$ 298,680	$ 15,720	$ -	$ 314,400
Employee benefits	3,264	1,633	-	4,897
Payroll taxes	37,439	1,971	-	39,410
Total salaries & related expenses	339,383	19,324	-	358,707
Bank charges	6,642	-	-	6,642
Board expenses	-	2,019	-	2,019
Depreciation and amortization	106,283	2,500	-	108,783
Dues and subscriptions	400	-	462	862
Information services expense	3,219	3,218	3,536	9,973
Insurance	22,740	-	-	22,740
Interest expense	28,986	2,000	-	30,986
Miscellaneous	5,239	582	-	5,821
Office expense	1,942	5,825	-	7,767
Payroll processing fees	2,492	131	-	2,623
Postage and shipping	420	421	421	1,262
Printing and publications	1,775	-	-	1,775
Professional development	600	600	600	1,800
Professional fees	27,620	82,859	-	110,479
Professional fundraising fees	-	-	18,020	18,020
Program	70,894	-	-	70,894
Rent	-	147	-	147
Repairs	26,487	-	-	26,487
Taxes and licenses	8,819	440	-	9,259
Telephone	2,109	6,327	2,109	10,545
Utilities	103,356	5,440	-	108,796
Total Expenses	$ 759,406	$ 131,833	$ 25,148	$ 916,387

See Notes to Consolidated Financial Statements

BOAZ AND RUTH, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Operating Activities		
Change in net assets	$ 731,450	$ (42,994)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	48,108	108,783
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts and grants receivable	17,065	22,751
Prepaid expenses	9,119	(5,353)
Other assets	567	(1,554)
Increase (decrease) in liabilities:		
Accounts payable	(55,042)	29,173
Other liabilities	2,550	790
Accrued expenses and employee payroll deductions	(14,646)	(33,053)
Net cash provided by (used in) operating activities	739,171	78,543
Investing Activities- Net Cash		
Purchase of property and equipment	(5,814)	-
Sale of property and equipment	89,477	-
Net cash used in investing activities	83,663	-
Financing Activities		
Curtailment of notes payable	(719,747)	(80,005)
Increase in loan fees	165	159
Net cash provided by (used in) financing activities	(719,582)	(79,846)
Increase (decrease) in cash and cash equivalents	103,252	(1,303)
Cash and cash equivalents, beginning	81,100	82,403
Cash and cash equivalents, ending	$ 184,352	$ 81,100

	2015	2014
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 18,546	$ 45,363
Noncash reduction of prepaid expenses and deferred revenue	$ 4,714	$ 4,555

See Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Boaz and Ruth, Inc. (the "Organization") 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.

The Organization is the 100% owner of 1213 Giles, LLC, which was organized in 2007 to renovate rental properties. The entity 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.

The Organization is the 100% owner of Boaz and Ruth Community Development Corporation ("CDC"), which was established in 2007 to develop and manage real estate owned by HP Firehouse, LP. The entity 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.

Boaz and Ruth Community Development Corporation ("CDC") is the 100% owner of HP Firehouse, LP. The limited partnership was organized in 2007 as a for-profit entity to hold the firehouse property. The firehouse renovations were completed and placed in service in 2008. After a five-year holding period, the CDC acquired the remaining non-controlling interest on July 1, 2013. HP Firehouse, LP is now considered a disregarded entity and all of their assets, liabilities, and income and expense items have been consolidated in these financial statements.

A summary of the Organization's significant accounting policies follows:

Principles of consolidation: 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.

Financial statement presentation: Under the accounting standard regarding "Financial Statements of Not-for-Profit Organizations", the Organization is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net asset classes are summarized as follows:

The unrestricted net asset class includes the general assets and liabilities of the Organization. Revenue and support received by the Organization without explicit donor restrictions that specify how the donated asset must be used or maintained are reported as unrestricted to the Organization. In general, the unrestricted net assets of the Organization may be used at the discretion of the Organization's management and Board of Directors to support the Organization's purpose and operations.

The temporarily restricted net asset class includes funds available for support of the Organization's activities, which are expendable only for purposes specified by the donor or within a specific period. When a restriction expires either with the passage of time or by actions of the Organization, temporarily restricted net assets are released and reclassified to unrestricted net assets.

Permanently restricted net assets represent endowment funds that are restricted to investment in perpetuity, the income from which is expendable to support the various programs sponsored by the Organization. The Organization had no permanently restricted net assets at December 31, 2015 or 2014.

Note 1. Nature of Business and Significant Accounting Policies (Cont'd)

Cash equivalents: For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts, grants and pledges receivable: The Organization is routinely involved in programs that result in unsecured receivables, similar to those associated with commercial businesses. Receivables are deemed past due if payments are not received by the due date stated on the billing statement. Past due accounts are not charged a monthly finance charge on the past due balance. Uncollectible receivables resulting from this type of transaction are charged to expense in the year an account is determined to be uncollectible. Pledges receivable represent funds that the Organization will receive during the next fiscal year.

Accounts, grants and pledges receivable are periodically evaluated for collectability based on past credit history and current financial condition. If necessary, an allowance for loss on accounts, grants and pledges receivable is provided based on management's evaluation of the collectability of individual accounts, grants and pledge receivable balances.

Revenue recognition: Contributions which include unconditional promises to give are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor. Program support grants are recognized as revenue at the time of award if they are unconditional.

The Organization reports grants and contributions in the temporarily restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the statement of activities. However, if restrictions on grants and contributions are met in the same reporting period as the grant or contribution is received, the revenues are reported as increases in unrestricted net assets.

Revenues from exchange contracts and cost reimbursement grants are recognized to the extent allowable expenses are incurred under the respective agreements. Amounts reported as accounts and grants receivable include exchange contract and grant program expenses incurred in advance of the receipt of funds as well as amounts billed for program support grants that have been awarded but not received. Funds received in advance of exchange contract and grant program expenses are reported as deferred revenue.

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:

Asset Description	Years
Building	30-39
Office and computer equipment	5-7
Automotive equipment	5
Cafe equipment	5
Computer software	3

Note 1. Nature of Business and Significant Accounting Policies (Cont'd)

In-kind services: Donated services are recorded at fair market value at the date of the donation. Donated services are recognized in the consolidated financial statements at their fair value if the following criteria are met:

i) The services require specialized skills and the services are provided by individuals possessing those skills, and the services would typically need to be purchased if not donated, or
ii) The services enhance or create an asset.

Although the Organization utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying consolidated financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

For the year ended December 31, 2015 and 2014 the Organization received contributed services in the amount of $39,846 and $55,925, respectively, for legal services.

For the year ended December 31, 2015 and 2014 the Organization received contributed services in the amount of $2,500 and $5,412, respectively, for accounting services.

Donated real estate and materials: Donated materials received by the Organization are not recorded in the consolidated financial statements if the estimated fair value cannot be reasonably determined due to a major uncertainty as to the future economic benefit and if the items cannot be used internally in the Organization's major programs and activities. Donated materials that can be used internally in the Organization's major programs and activities and for which there is not a major uncertainty as to the future economic benefit are recognized as contributions at the time of receipt at the estimated fair value.

Income taxes: The Organization is exempt from Federal income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose may be subject to taxation as unrelated business income. The Organization had no unrelated business income during the years ended December 31, 2015 and 2014. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Organization adopted the accounting standard regarding "Accounting for Uncertain Tax Positions". This standard provides detailed guidance for consolidated financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in the Organization's consolidated financial statements. It requires an entity to recognize the consolidated financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. The tax years of 2012 to 2014 remain subject to examination by the taxing authorities.

The Organization includes penalties and interest assessed by income taxing authorities in operating expenses. The Organization did not have penalties and interest expense for the years ended December 31, 2015 or 2014.

Note 1. Nature of Business and Significant Accounting Policies (Cont'd)

Loan origination fees: Loan origination fees include fees and other external costs incurred to obtain debt financings and are generally amortized on a straight-line basis, over a period not to exceed the term of the related debt. Unamortized loan organization fees are written off when debt is retired before its maturity date. Amortization expense related to these loan origination fees amounted to $268 and $268 for the years ended December 31, 2015 and 2014, respectively.

Advertising cost: Advertising cost is expensed as incurred.

Use of estimates: The preparation of consolidated 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.

Note 2. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods.

	2015	2014
Capital Projects	$ 30,000	$ 30,000
Economic Development Program	11,250	-0-
Professional Development Plan	7,000	8,200
Total	48,250	$ 38,200

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by grantors as follows:

Purpose restriction accomplished:	2015	2014
Capital Projects	$ 10,000	$ 80,043
Economic Development Program	40,000	17,500
Program Expenses	20,000	25,000
Professional Development Plan	1,200	1,800
Organization Development	-0-	10,000
Total	$ 71,200	$ 134,343

Note 3. Long-Term Debt

Union First Market Bank:	2015	2014
5.150%, payable in monthly installments of $1,816 per month including interest and one irregular payment estimated at $36,550, due, June 2018 secured by real estate	$ 83,120	$ 96,310
5.150%, payable in monthly installments of $643 per month including interest and one irregular payment estimated at $81,085, due, August 2017 secured by real estate	79,612	86,459
5.150%, payable in monthly installments of $914 per month including interest and one irregular payment estimated at $114,781, due, October 2017 secured by real estate	122,377	126,350

Note 3. Long-Term Debt (Cont'd)	2015	2014
Virginia Housing Department Authority, 3.50%, payable in monthly installments of $3,412 per month including interest, due October 1, 2040, secured by real estate. This debt was forgiven October 27, 2015 by the lending institution	-0-	695,717
Department of Housing and Community Development, interest only at a rate of 3.66% annual interest with payment of interest at 1.00% and the portion of interest in excess of 1.00% deferred until September 30, 2025 at which time the principal portion of the loan and accrued and unpaid interest shall be due and payable, secured by real estate	330,000	330,000
SunTrust Bank, 0% interest, subordinated, deferred until December 1, 2024 at which time the principal portion of the loan shall be due in full at maturity, secured by real estate. Notwithstanding anything herein to the contrary, at such time, the Organization has satisfied in full all of its obligations under the FHLBank of Atlanta Affordable Housing Program Agreement (Rental Project), the loan shall be deemed satisfied in full.	190,000	190,000
Total Long-Term Debt	$ 805,089	$1,524,836

The Organization has determined in accordance with generally accepted accounting principles that given the 0% interest rate on the long-term $190,000 SunTrust Bank note payable that an asset and liability should be recognized for an amount equal to the present value of the interest expense incurred over the term of the note with offsetting contribution revenue related to the fact no interest payments are required to be made to SunTrust Bank over the life of the loan. A discount rate of 3.50% was used in determining the present value of the prepaid expense asset and deferred revenue liability and annual amounts will be amortized over the life of the loan and recognized in both revenues and expenses. Interest expense and contribution revenue was recognized in the amount of $4,714 and $4,555 for the years ended December 31, 2015 and 2014, respectively. Amounts included in prepaid expenses and deferred revenue related to the present value discount of the note is $50,591 and $55,305 as of December 31, 2015 and 2014, respectively.

As of December 31, 2014, the aggregate maturities of long-term debt by year are as follows:

	2015	2014
2015	$ -0-	$ 720,536
2016	26,941	26,152
2017	216,146	216,146
2018	42,002	42,002
2019	-0-	-0-
2020	-0-	-0-
Later years	520,000	520,000
Total	$ 805,089	$1,524,836

Interest expense on all notes payable amounted to $18,546 and $45,363 for the years ended December 31, 2015 and 2014, respectively.

Note 4. Functional Allocation of Expenses

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

Note 5. 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. There was no activity for this program in 2015 or 2014.

Note 6. Restatement of Building Values

The organization's policy was to capitalize repair and maintenance, and labor costs related to buildings. In addition the buildings are located in an area with slow economic growth. Therefore, in 2015 management decided to restate the value of the buildings to lower of cost or market with the assessed value being used as the market value. The book value of the buildings at December 31, 2015 was $3,229,363 with accumulated depreciation of $682,385. The buildings were reduced by $1,864,363 and accumulated depreciation by $316,239. This is a net plant, property and equipment reduction of $1,548,124.

Note 7. Subsequent Events

Management has evaluated events through May 20, 2016, the date which the financial statements were available for issue.