BOAZ AND RUTH, INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 and 2016
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

BOAZ AND RUTH, INC.

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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, 2017 and 2016, 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, 2017 and 2016, 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.

A. M. Rose & Associates, P.C.

Richmond, Virginia
May 30, 2018

BOAZ AND RUTH, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

Assets	**2017**	**2016**
Current Assets		
Cash and cash equivalents	$ 328,243	$ 319,178
Accounts and grants receivable, less allowance for doubtful accounts of $0 and $0 respectively	11,088	10,869
Prepaid expenses	6,544	7,175
Other assets	5,227	5,050
Total Current Assets	351,102	342,272
Plant, Property and Equipment		
Land	404,740	404,740
Buildings	1,415,062	1,366,095
Vehicles	25,875	32,375
Computer software and equipment	5,813	24,321
Office equipment	9,267	9,267
Café equipment	5,754	5,754
	1,866,511	1,842,552
Less accumulated depreciation	(446,704)	(420,619)
	1,419,807	1,421,933
Other Assets		
Loan costs, net accumulated amortization of $1,697 and $1,429, respectively	6,358	6,626
Prepaid expense, less current portion of $5,227 and 5,050, respectively	35,435	40,662
	41,793	47,288
Total Assets	$ 1,812,702	$ 1,811,493
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 14,080	$ 5,919
Deferred revenue	12,077	5,050
Accrued expenses and employee payroll deductions	32,590	18,999
Other liabilities	2,575	2,740
Notes payable, current maturities of long-term debt	48,414	213,033
Total Current Liabilities	109,736	245,741
Long-Term Liabilities		
Deferred revenue, less current portion	35,435	40,662
Long-term debt, less current maturities	697,939	559,266
Total Long-Term Liabilities	733,374	599,928
Total Liabilities	843,110	845,669
Net Assets		
Net investment in capital assets	673,454	649,634
Unrestricted	246,138	286,190
Temporarily restricted	50,000	30,000
Total Net Assets	969,592	965,824
Total Liabilities and Net Assets	$ 1,812,702	$ 1,811,493

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, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and other support			
Contributions	$ 232,151	$ 20,000	$ 252,151
Grants	66,875	-	66,875
Program revenue	190,422	-	190,422
Miscellaneous	2,682	-	2,682
Net assets released from restrictions	-	-	-
Total revenue and other support	492,130	20,000	512,130
Expenses			
Program services	394,068	-	394,068
Management	87,350	-	87,350
Fundraising	26,944	-	26,944
Total Expenses	508,362	-	508,362
Change in Net Assets	(16,232)	20,000	3,768
Net assets, beginning of year	935,824	30,000	965,824
Adjustments to net assets:			
Net assets, end of year	$ 919,592	$ 50,000	$ 969,592

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, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and other support			
Contributions	$ 407,562	$ -	$ 407,562
Grants	39,375		39,375
Program revenue	206,531	-	206,531
Special events	-	-	-
Miscellaneous	724	-	724
Other revenue	(6,928)	-	(6,928)
Net assets released from restrictions	18,250	(18,250)	-
Total revenue and other support	665,514	(18,250)	647,264
Expenses			
Program services	397,909	-	397,909
Management	70,685	-	70,685
Fundraising	24,395	-	24,395
Total Expenses	492,989	-	492,989
Change in Net Assets	172,525	(18,250)	154,275
Net assets, beginning of year	773,740	48,250	821,990
Adjustments to net assets:			
Prior period adjustments	(10,441)	-	(10,441)
Net assets, end of year	$ 935,824	$ 30,000	$ 965,824

See Notes to Consolidated Financial Statements

BOAZ AND RUTH, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services	Management and General	Fund-Raising	Total Expenses
Salaries and wages	$ 148,054	$ 25,000	$ 15,000	$ 188,054
Employee benefits	4,786	500	500	5,786
Payroll taxes	15,266	2,341	1,404	19,011
Total salaries & related expenses	168,106	27,841	16,904	212,851
Bank charges	2,091	-	-	2,091
Board expenses	59	-	-	59
Depreciation and amortization	49,362	2,000	-	51,362
Information services expense	590	590	5,390	6,570
Insurance	19,928	1,000	500	21,428
Interest expense	22,051	1,000	-	23,051
Miscellaneous	630	-	-	630
Office expense	3,151	2,000	2,000	7,151
Postage and shipping	166	150	150	466
Printing and publications	982	1,000	1,000	2,982
Professional development	2,079	-	-	2,079
Professional fees	-	38,769	-	38,769
Program	10,394	-	-	10,394
Repairs	26,940	2,000	-	28,940
Taxes and licenses	10,752	1,000	-	11,752
Telephone	3,665	2,000	1,000	6,665
Travel & entertainment	56	-	-	56
Utilities	73,066	8,000	-	81,066
Total Expenses	$ 394,068	$ 87,350	$ 26,944	$ 508,362

See Notes to Consolidated Financial Statements

BOAZ AND RUTH, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services	Management and General	Fund-Raising	Total Expenses
Salaries and wages	$ 157,650	$ 9,000	$ 12,500	$ 179,150
Employee benefits	5,648	300	400	6,348
Payroll taxes	15,715	900	1,200	17,815
Total salaries & related expenses	179,013	10,200	14,100	203,313
Bank charges	3,741	-	-	3,741
Board expenses	-	34	-	34
Depreciation and amortization	46,651	2,500	-	49,151
Dues and subscriptions	-	-	-	-
Information services expense	1,022	1,100	2,100	4,222
Insurance	17,661	930	-	18,591
Interest expense	19,174	750	-	19,924
Miscellaneous	2,429	-	-	2,429
Office expense	1,822	1,820	1,820	5,462
Payroll processing fees	-	-	-	-
Postage and shipping	115	105	105	325
Professional development	2,563	2,550	2,550	7,663
Professional fees	16,339	43,460	-	59,799
Program	8,600	-	-	8,600
Rent	799	750	750	2,299
Telephone	2,067	2,070	2,070	6,207
Travel & entertainment	-	166	-	166
Utilities	70,184	3,700	-	73,884
Total Expenses	$ 397,909	$ 70,685	$ 24,395	$ 492,989

BOAZ AND RUTH, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Operating Activities		
Change in net assets	$ 3,768	$ 143,834
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	51,362	49,151
Loss on disposal of equipment	-	1,072
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts and grants receivable	(219)	(723)
Prepaid expenses	631	3,011
Other assets	(177)	(1,322)
Increase (decrease) in liabilities:		
Accounts payable	8,161	(50,496)
Other liabilities	6,684	(600)
Accrued expenses and employee payroll deductions	13,591	6,686
Net cash provided by (used in) operating activities	83,801	150,613
Investing Activities- Net Cash		
Purchase of property and equipment	(48,967)	(4,200)
Sale of property and equipment	-	21,031
Net cash used in investing activities	(48,967)	16,831
Financing Activities		
Payments on notes	(25,946)	(32,789)
Increase in loan fees	177	171
Net cash provided by (used in) financing activities	(25,769)	(32,618)
Increase (decrease) in cash and cash equivalents	9,065	134,826
Cash and cash equivalents, beginning	319,178	184,352
Cash and cash equivalents, ending	$ 328,243	$ 319,178
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 23,051	$ 19,924
Noncash reduction of prepaid expenses and deferred revenue	$ 5,050	$ 4,879

See Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of Business

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, which is also owned 100% by the organization. Both are considered disregarded entities for federal income tax purposes. The 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 below. The organization has not adopted ASU 2016-14 for the current year as it is effective for fiscal years beginning after December 15, 2017.

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, 2017 and 2016.

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, 2017 and 2016 the Organization received contributed services in the amount of $16,261 and $21,605, respectively, for legal services.

For the year ended December 31, 2017 and 2016 the Organization received contributed services in the amount of $0 and $6100, 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, 2017 and 2016. 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 2014 to 2016 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, 2017 and 2016.

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, 2017 and 2016, 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.

	2017	2016
Capital Projects	$ 30,000	$ 30,000
Prison Re-entry Program	5,000	-0-
Development Coordinator & Grant Writer	15,000	-0-
Total	$ 50,000	$ 30,000

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

Purpose restriction accomplished:	2017	2016
Capital Projects	$ -0-	$ -0-
Economic Development Program	-0-	11,250
Program Expenses	-0-	-0-
Professional Development Plan	-0-	7,000
Total	$ -0-	$ 18,250

Note 3. Long-Term Debt

Union First Market Bank:	2017	2016
5.150%, payable in monthly installments of $1,816 per month including interest and one irregular payment estimated at $30,968, due, June 2018 secured by real estate	$ 40,876	$ 58,460
5.150%, payable in monthly installments of $643 per month including interest through April 2018. The note was modified beginning May 2018 with monthly installment of $642 including interest and one irregular payment estimated at $49,178 until August 2023 secured by real estate.	73,533	77,309

Note 3. Long-Term Debt (Cont'd)	**2017**	**2016**
5.150%, payable in monthly installments of $914 per month including interest through April 2018. The note was modified beginning May 2018 with monthly installment of $922 including interest and 1 irregular payment estimated at $77,739 until April 2023 secured by real estate	111,944	116,530
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	$ 746,353	$ 772,299

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 $5,050 and $4,879 for the years ended December 31, 2017 and 2016, respectively. Amounts included in prepaid expenses and deferred revenue related to the present value discount of the note is $40,662 and $45,712 as of December 31, 2017 and 2016, respectively.

The aggregate maturities of long-term debt by year are as follows:

	2017	**2016**
2017	$ -0-	$ 213,033
2018	48,414	39,266
2019	9,642	-0-
2020	10,163	-0-
2021	10,712	-0-
2022	11,290	-0-
Later years	656,132	520,000
Total	$ 746,353	$ 772,299

Interest expense on all notes payable amounted to $23,051 and $19,924 for the years ended December 31, 2017 and 2016, respectively.

Note 4. Lease

The organization leases office equipment under a non-cancelable operating lease. The lease provides for minimum lease payments of $217 per month until June 2019 for a copier/printer. The future minimal lease payments for the year ended December 31, 2018 and 2019 are $2,604 and $1,085 respectively for a total of $3,689. Lease expense for 2017 and 2016 is $2,604 for each year and recorded in office expense.

Note 5. 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 6. 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 2017.

Note 7. 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 8. Subsequent Events

Management has evaluated events through May 30, 2018, the date which the financial statements were available for issue.