BOAZ AND RUTH, INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 and 2017
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

BOAZ AND RUTH, INC.

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INDEPENDENT AUDITOR'S 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.(a nonprofit organization) and its affiliates which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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, 2018 and 2017, 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. Reese & Associates, P.C.

Richmond, Virginia
May 30, 2019

BOAZ AND RUTH, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 257,532	$ 328,243
Accounts and grants receivable, less allowance for doubtful accounts of $0 and $0 respectively	18,726	11,088
Prepaid expenses	5,744	6,544
Other assets	5,863	5,227
Total Current Assets	287,865	351,102
Plant, Property and Equipment		
Land	404,740	404,740
Buildings	1,447,593	1,415,062
Vehicles	25,875	25,875
Computer software and equipment	5,813	5,813
Office equipment	9,267	9,267
Café equipment	5,754	5,754
	1,899,042	1,866,511
Less accumulated depreciation	(496,481)	(446,704)
	1,402,561	1,419,807
Other Assets		
Loan costs, net accumulated amortization of $1,966 and $1,697, respectively	6,089	6,358
Prepaid expense, less current portion of $5,227 and 5,050, respectively	36,527	35,435
	42,616	41,793
Total Assets	$ 1,733,042	$ 1,812,702
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 8,483	$ 14,080
Deferred revenue	12,260	12,077
Accrued expenses and employee payroll deductions	13,792	32,590
Other liabilities	3,321	2,575
Notes payable, current maturities of long-term debt	10,081	48,414
Total Current Liabilities	47,937	109,736
Long-Term Liabilities		
Deferred revenue, less current portion	36,527	35,435
Long-term debt, less current maturities	683,213	697,939
Total Long-Term Liabilities	719,740	733,374
Total Liabilities	767,677	843,110
Net Assets		
Net investment in capital assets	709,267	673,454
Without donor restrictions	254,196	246,138
With donor restriction	1,902	50,000
Total Net Assets	965,365	969,592
Total Liabilities and Net Assets	$ 1,733,042	$ 1,812,702

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, 2018

	Without Donor Restriction	With Donor Restriction	Total
Revenue and other support			
Contributions	$ 225,234	$ 20,000	$ 245,234
Grants	59,000	-	59,000
Program revenue	198,198	-	198,198
Special events	-	-	-
Miscellaneous	2,084	-	2,084
Net assets released from restrictions	68,098	(68,098)	-
Total revenue and other support	552,614	(48,098)	504,516
Expenses			
Program services	392,620	-	392,620
Management	67,721	-	67,721
Fundraising	48,402	-	48,402
Total Expenses	508,743	-	508,743
Change in Net Assets	43,871	(48,098)	(4,227)
Net assets, beginning of year	919,592	50,000	969,592
Adjustments to net assets:	-	-	-
Net assets, end of year	$ 963,463	$ 1,902	$ 965,365

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

	Without Donor Restriction	With Donor Restriction	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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fund-Raising	Total Expenses
Salaries and wages	$ 123,317	$ 27,634	$ 35,904	$ 186,855
Employee benefits	3,342	300	400	4,042
Payroll taxes	12,262	2,700	3,500	18,462
Total salaries & related expenses	138,921	30,634	39,804	209,359
Bad debt expense	5,416	-	-	5,416
Bank charges	946	-	-	946
Board expenses	-	1,949	-	1,949
Depreciation and amortization	47,545	2,500	-	50,045
Dues and subscriptions	-	170	170	340
Information services expense	2,753	2,753	2,753	8,259
Insurance	18,668	1,000	-	19,668
Interest expense	16,334	750	-	17,084
Job training	4,760	-	-	4,760
Office expense	2,260	2,258	2,258	6,776
Postage and shipping	174	174	174	522
Printing and publications	1,377	1,350	1,350	4,077
Professional fees	27,400	15,000	-	42,400
Program	14,289	-	-	14,289
Repairs	28,232	3,100	-	31,332
Taxes & License	3,296	390	-	3,686
Telephone	1,893	1,893	1,893	5,679
Travel & entertainment	-	100	-	100
Utilities	77,020	3,700	-	80,720
Vehicle expense	1,336	-	-	1,336
Total Expenses	$ 392,620	$ 67,721	$ 48,402	$ 508,743

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
Job training	2,079	-	-	2,079
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 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

BOAZ AND RUTH, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Operating Activities		
Change in net assets	$ (4,227)	$ 3,768
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	50,045	51,362
Loss on disposal of equipment	-	-
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts and grants receivable	(7,638)	(219)
Prepaid expenses	800	631
Other assets	(636)	(177)
Increase (decrease) in liabilities:		
Accounts payable	(5,597)	8,161
Other liabilities	746	6,684
Accrued expenses and employee payroll deductions	(18,798)	13,591
Net cash provided by (used in) operating activities	14,695	83,801
Investing Activities- Net Cash		
Purchase of property and equipment	(32,531)	(48,967)
Sale of property and equipment	-	-
Net cash used in investing activities	(32,531)	(48,967)
Financing Activities		
Payments on notes	(53,058)	(25,946)
Increase in loan fees	183	177
Net cash provided by (used in) financing activities	(52,875)	(25,769)
Increase (decrease) in cash and cash equivalents	(70,711)	9,065
Cash and cash equivalents, beginning	328,243	319,178
Cash and cash equivalents, ending	$ 257,532	$ 328,243

	2018	2017
Supplemental Disclosures of Cash Flow Information		
Interest paid	$ 17,084	$ 23,051
Noncash reduction of prepaid expenses and deferred revenue	$ 8,430	$ 5,050

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:

<u>Principles of consolidation</u>: 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.

<u>Financial statement presentation</u>: 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 two classes of net assets: with donor restrictions and without donor restrictions. The net asset classes are summarized below.

The net assets without donor restriction 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 net assets without donor restrictions 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 net assets with donor restrictions 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, net assets with donor restrictions are released and reclassified to net assets without donor restrictions.

<u>Cash equivalents</u>: 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.

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

Accounts, grants and pledges receivable: The Organization is routinely involved in programs that result in unsecured receivables, like 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 without donor restrictions 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 as net assets with donor restrictions 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, net assets are released and reclassified to net assets without restrictions 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 net assets without donor restrictions.

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, 2018 and 2017 the Organization received contributed services in the amount of $12,297 and $16,261 for legal services. The legal services were used for corporate maintenance and real estate rental and development. The total amounts were also included as contributions.

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, 2018 and 2017. 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 2015 to 2017 remain subject to examination by the taxing authorities.

The Organization includes penalties and interest assessed by income taxing authorities in operating expenses. The Organization had penalties and interest expense for the years ended December 31, 2018 and 2017 of less than $200 per year included in payroll taxes.

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, 2018 and 2017, respectively.

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

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. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods.

	2018	2017
Capital Projects	$ -0-	$ 30,000
Prison Re-entry Program	-0-	5,000
Development Coordinator & Grant Writer	1,902	15,000
Total	$ 1,902	$ 50,000

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

Purpose restriction accomplished:	2018	2017
Capital Projects	$ 30,000	$ -0-
Prison Re-entry Program	25,000	-0-
Development Coord/Grant Writer	13,098	-0-
Total	$ 68,098	$ -0-

Note 3. Liquidity and Availability of Financial Assets

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Financial assets include cash and accounts receivables.

	2018	2017
Financial assets at year-end	$ 276,258	$ 339,331
Less those unavailable for general expenditures within one year, due to donor restricted funds as in Note 2 above	1,902	50,000
Financial assets available to meet cash needs for general expenditures within one year	$ 274,356	$ 289,331

For the years ending December 2018 and 2017, the organization had 224 and 240 days of liquidity, respectively. This is based on the total expenses less non-cash expenses for depreciation, amortization and donated services.

Note 3. Long-Term Debt

	2018	2017
Union First Market Bank:		
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. The loan was paid off in full December 2018.	$ -0-	$ 40,876
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.	68,794	73,533
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	104,500	111,944
Department of Housing and Community Development (DHCD), as of August 2018, 0% interest deferred until November 9, 2020. At the end of the HOME affordability period of November 2020, the loan will be forgiven in full as well as the accrued interest and late fees. Prior to 2018, interest only at rate of 3.66% annual with payment of 1.00%, 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	$ 693,294	$ 746,353

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 and $330,000 DHCD notes 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 notes with offsetting contribution revenue related to the fact no interest payments are required to be made to SunTrust Bank and DHCD over the life of the loans . A discount rate of 3.50% on SunTrust and 1.00% on DHCD 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 loans and recognized in both revenues and expenses. Interest expense and contribution revenue was recognized in the amount of $5,227 and $5,050 for the years ended December 31, 2018 and 2017, respectively for SunTrust loan and $3,203 for December 31, 2018 for DHCD loan. Amounts included in prepaid expenses and deferred revenue related to the present value discount of the notes are $41,937 and $40,662 as of December 31, 2018 and 2017 respectively.

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

		2018	2017
2018		$ -0-	$ 48,414
2019		340,081	9,642
2020		10,607	10,163
2021		11,161	10,712
2022		11,743	11,290
2023		12,356	12,356
Later years		307,346	643,776
	Total	$ 693,294	$ 746,353

Interest expense on all notes payable amounted to $17,084 and $23,051 for the years ended December 31, 2018 and 2017, 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 2018 and 2017 is $2,604 for each year and recorded in office expense.

Note 5. Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits, which are allocated based on estimates of time and effort, as well as depreciation, interest, and utilities, which are allocated based on square footage. Telephone, and office related expenses are allocated based on percentage of use.

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 2018.

Note 8. Subsequent Events

Management has evaluated events through May 30, 2019, the date which the financial statements were available for issue.