

**HIS BRANCHES, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014**

HIS BRANCHES, INC.

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Notes to Financial Statements



Petrella Phillips LLP Certified
Public
Accountants
Plan. Perform. Progress.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
His Branches, Inc.

We have audited the accompanying financial statements of His Branches, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 of the 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of His Branches, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited the His Branches, Inc., 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 7, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Petrella Phillips LLP

Petrella Phillips LLP
Certified Public Accountants

Rochester, New York
January 12, 2016

HIS BRANCHES, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2015 AND 2014

| <u>ASSETS</u> | <u>2015</u> | <u>2014</u> |
|--|-----------------------|-----------------------|
| <u>Current assets</u> | | |
| Cash and cash equivalents | \$ 72,445 | \$ 68,253 |
| Patient revenue receivable, net of allowance for doubtful accounts: \$179,927 for 2015 and \$128,289 for 2014 | 105,861 | 109,135 |
| Grants and pledges receivable, net of allowance for doubtful accounts of \$4,300 for 2015 and \$0 for 2014 | 72,078 | 75,738 |
| Accounts receivable - trade | 10,464 | 5,244 |
| Prepaid expenses | <u>15,627</u> | <u>41,151</u> |
| Total current assets | <u>276,475</u> | <u>299,521</u> |
| <u>Property and equipment</u> | | |
| Land, building and equipment | 500,437 | 468,682 |
| Accumulated depreciation | <u>(293,708)</u> | <u>(267,339)</u> |
| Net property and equipment | <u>206,729</u> | <u>201,343</u> |
| Mortgage acquisition costs, net of accumulated amortization of \$341 for 2015 and \$156 for 2014 | <u>3,352</u> | <u>3,537</u> |
| <u>TOTAL ASSETS</u> | <u>\$ 486,556</u> | <u>\$ 504,401</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>LIABILITIES</u> | | |
| Accounts payable | \$ 6,366 | \$ 33,795 |
| Credit card liabilities | 0 | 9,865 |
| Accrued salaries | 48,017 | 34,756 |
| Notes payable to providers, including interest in arrears | 48,201 | 96,256 |
| Mortgage payable - Bank | <u>173,158</u> | <u>185,330</u> |
| Total liabilities | <u>275,742</u> | <u>360,002</u> |
| <u>NET ASSETS</u> | | |
| Unrestricted | 150,366 | 79,649 |
| Temporarily restricted | 60,448 | 64,750 |
| Permanently restricted | <u>-</u> | <u>-</u> |
| Total net assets | <u>210,814</u> | <u>144,399</u> |
| <u>TOTAL LIABILITIES AND NET ASSETS</u> | <u>\$ 486,556</u> | <u>\$ 504,401</u> |

The accompanying auditors' report and footnotes are an integral part of these financial statements.

HIS BRANCHES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total 2015</u> | <u>Total 2014</u> |
|--|---------------------|-----------------------------------|-----------------------|-----------------------|
| <u>REVENUES, GAINS AND OTHER SUPPORT</u> | | | | |
| Donations and grants received | \$ 126,290 | \$ 116,435 | \$ 242,725 | \$ 203,589 |
| Donated services | 25,190 | - | 25,190 | 12,000 |
| Program fees - patient revenue and medical workshops | 803,707 | - | 803,707 | 645,785 |
| Less provision for bad debts | (60,513) | - | (60,513) | (13,259) |
| Rental income and personnel service reimbursements | 61,873 | - | 61,873 | 66,539 |
| Interest forgiveness on notes payable to providers | - | - | - | 4,054 |
| Net assets released from restrictions: Restrictions satisfied by payments | <u>120,737</u> | <u>(120,737)</u> | <u>-</u> | <u>-</u> |
| Total Revenues, gains and other support | <u>1,077,284</u> | <u>(4,302)</u> | <u>1,072,982</u> | <u>918,708</u> |
| <u>EXPENSES (Exhibit D)</u> | | | | |
| Program services | 723,113 | - | 723,113 | 647,219 |
| Supporting services | 262,598 | - | 262,598 | 225,499 |
| Fund raising expenses | <u>20,856</u> | <u>-</u> | <u>20,856</u> | <u>21,391</u> |
| Total Expenses | <u>1,006,567</u> | <u>-</u> | <u>1,006,567</u> | <u>894,109</u> |
| CHANGE IN NET ASSETS | 70,717 | (4,302) | 66,415 | 24,599 |
| Net Assets at Beginning of Year | <u>79,649</u> | <u>64,750</u> | <u>144,399</u> | <u>119,800</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 150,366</u> | <u>\$ 60,448</u> | <u>\$ 210,814</u> | <u>\$ 144,399</u> |

The accompanying auditors' report and footnotes are an integral part of these financial statements.

HIS BRANCHES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Change in net assets | \$ 66,415 | \$ 24,599 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Amortization | 185 | 3,357 |
| Depreciation | 26,369 | 23,308 |
| Increase (decrease) in allowance for doubtful accounts | 55,938 | (205,557) |
| Interest accrued (forgiven) on notes to providers | 945 | (4,054) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in receivables | (54,224) | 163,679 |
| Decrease (increase) in prepaid expenses | 25,524 | (34,369) |
| Increase (decrease) in accounts payable | (37,294) | 20,533 |
| Increase (decrease) in accrued expenses | 13,261 | 9,934 |
| Net cash provided by operating activities | <u>97,119</u> | <u>1,430</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Capital acquisitions | <u>(31,755)</u> | <u>(32,362)</u> |
| Net cash used by investing activities | <u>(31,755)</u> | <u>(32,362)</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Payments on Line of Credit | - | (82,104) |
| Payments on provider notes payable | (49,000) | - |
| Mortgage refinancing proceeds | - | 131,576 |
| Prepaid mortgage acquisition costs | - | (3,693) |
| Mortgage principal payments | <u>(12,172)</u> | <u>(11,965)</u> |
| Net cash provided by financing activities | <u>(61,172)</u> | <u>33,814</u> |
| <u>INCREASE IN CASH AND CASH EQUIVALENTS</u> | 4,192 | 2,882 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | <u>68,253</u> | <u>65,371</u> |
| CASH AND CASH EQUIVALENTS - END OF PERIOD | <u>\$ 72,445</u> | <u>\$ 68,253</u> |
| <u>Supplemental Cash Flow Disclosures</u> | | |
| Non-cash donations received and expensed | <u>\$ 25,190</u> | <u>\$ 12,000</u> |
| Interest paid | <u>\$ 11,179</u> | <u>\$ 11,612</u> |

The accompanying auditors' report and footnotes are an integral part of these financial statements.

HIS BRANCHES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | <u>Medical and Community Services</u> | | Fund Raising | Total 2015 |
|--|---------------------------------------|-----------------|------------------|---------------------|
| | Local | Overseas | | |
| EXPENSES | | | | |
| Grants and program expenses | \$ 61,912 | \$ 2,500 | \$ - | \$ 64,412 |
| Joint costs of combined education and fund raising event | 2,501 | - | 3,752 | 6,253 |
| Salaries, provider fees and payroll taxes | 497,863 | 217 | 7,880 | 683,439 |
| Travel, meetings, education and training | 6,106 | 32 | 32 | 7,396 |
| Employee benefits | 32,971 | 14 | 522 | 45,261 |
| General business insurance | 23,663 | 131 | 131 | 26,291 |
| Licenses and permits | 1,549 | 9 | 9 | 1,722 |
| Medical billing net of reimbursements | - | - | - | 5,328 |
| Postage, printing and reproduction | 3,997 | - | 1,998 | 9,992 |
| Office supplies and expense | 7,876 | - | 3,938 | 19,690 |
| Information technology | 13,585 | - | 1,941 | 19,408 |
| Retirement plan administrative expense | - | - | - | 1,216 |
| Dues, fees and subscriptions | 1,597 | 18 | - | 1,775 |
| Telephone and communication | 12,826 | - | - | 16,032 |
| Website, publicity and volunteer appreciation | 1,992 | 33 | 299 | 3,320 |
| Fair value of donated professional services | - | - | - | 25,190 |
| Fund raising expense | - | - | 16 | 16 |
| Interest | 9,002 | 56 | 73 | 11,179 |
| Space and occupancy expense | 21,155 | 132 | 132 | 26,443 |
| Amortization | 148 | 1 | 1 | 185 |
| Depreciation | 21,095 | 132 | 132 | 26,369 |
| Legal and accounting | - | - | - | 5,575 |
| Filing fees | - | - | 75 | 75 |
| NET EXPENSES - EXHIBIT B | \$ 719,838 | \$ 3,275 | \$ 20,856 | \$ 1,006,567 |
| Percentage of Total Functional Expenses | 71.51% | 0.33% | 2.07% | 100.00% |

The accompanying auditors' report and footnotes are an integral part of these financial statements.

HIS BRANCHES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | Medical and Community Services | | Fund Raising | Total 2014 |
|--|--------------------------------|-----------------|------------------|-------------------|
| | Local | Overseas | | |
| EXPENSES | | | | |
| Grants and program expenses | \$ 38,703 | \$ 2,000 | \$ - | \$ 40,703 |
| Joint costs of combined education and fund raising event | 3,449 | - | 5,173 | 8,622 |
| Salaries, employee benefits and payroll taxes | 464,685 | 229 | 8,132 | 639,886 |
| Meetings, conferences and travel | 5,593 | 35 | 35 | 6,991 |
| Education and training | 3,607 | - | - | 3,607 |
| General business insurance | 20,603 | 114 | 114 | 22,891 |
| Licenses and permits | 3,932 | 22 | 22 | 4,369 |
| Donated professional services | - | - | - | 12,000 |
| Medical billing net of reimbursements | - | - | - | 2,500 |
| Postage, printing and reproduction | 3,296 | - | 1,647 | 8,239 |
| Office supplies and expense | 6,645 | - | 3,323 | 16,612 |
| Information technology | 11,863 | - | 1,695 | 16,948 |
| Professional services and plan administrator | 712 | - | - | 1,528 |
| Dues, fees and subscriptions | 2,409 | 27 | - | 2,677 |
| Telephone and communication | 7,805 | - | - | 9,756 |
| Website and publicity | 5,097 | 85 | 802 | 8,533 |
| Interest | 2,038 | 12 | 48 | 2,398 |
| Space and occupancy expense | 42,528 | 265 | 266 | 53,159 |
| Amortization | 2,685 | 17 | 17 | 3,357 |
| Depreciation | 18,646 | 117 | 117 | 23,308 |
| Legal and accounting | - | - | - | 5,375 |
| Filing fees | - | - | - | 650 |
| NET EXPENSES - EXHIBIT B | \$ 644,296 | \$ 2,923 | \$ 21,391 | \$ 894,109 |
| Percentage of Total Functional Expenses | 72.06% | 0.33% | 2.39% | 100.00% |

The accompanying auditors' report and footnotes are an integral part of these financial statements.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Note A - Summary of Significant Accounting Policies

Method of Accounting and Change of Accounting Period

The Organization maintains its books and prepares its financial statements on the accrual basis of accounting with a fiscal year ending on June 30.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ASC 958, *Financial Statements of Not-for-Profit Organizations*. Under that standard, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has only unrestricted and temporarily restricted net assets.

Revenue Recognition

The largest portion of the Organization's revenue is from fees for patient services. These revenues are recognized when services are provided, without regard to whether the fees are collectible. Therefore, the provision for bad debts related to these billings has been presented as a direct deduction in the revenue section of the Statement of Activities, in accordance with the accounting standards update issued by the FASB, ASC 958.

Contributions

The Organization has adopted FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*. Under ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. The collectible portion of unconditional promises-to-give is to be recorded as receivable on the Statement of Position and as revenue on the Statement of Activities in the year a promise is received.

Restricted Revenue

Gifts of cash and other assets, which are received with donor stipulations that limit the use of these assets, are reported as increases in temporarily restricted net assets. When a donor restriction expires or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services

Under generally accepted accounting practices, donated specialized services which would under other circumstances be purchased, and those services which increase the value of a non-financial asset, are to be recognized as non-cash donations on the Statement of Activities and charged as an expense or capitalized as appropriate. Unpaid volunteers and directors carry on a substantial part of the Organization's work. The value of these services is not reflected in the accompanying financial statements since they do not meet the criteria for quantified recognition under FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*).

The accompanying accountant's report is an integral part of these financial statements.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Cash and Cash Equivalents

Cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. The Organization maintains cash and cash equivalents at financial institutions, which periodically could exceed federally insured amounts. The Organization had no cash or cash equivalent balances in excess of federally insured amounts at June 30, 2015 and 2014.

Patient Revenue Receivable and Allowance for Doubtful Accounts

Patient revenue receivable includes amounts due from third parties (insurance companies) as well as co-insurance and self-pay receivables. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

Management regularly reviews data about these sources in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization reduces the amounts billed to the contractually due amounts, and then further analyzes and provides an allowance for doubtful accounts and a provision for bad debts, if necessary.

For receivables associated with self-pay patients (those without insurance and those with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard or discounted billings and the amounts actually collected after all reasonable collection efforts have been exhausted, is charged off against the allowance for doubtful accounts.

Property, Equipment and Depreciation

Property and equipment are carried at cost, or if donated, at the approximate fair value on the date of donation. The depreciation of building and equipment is computed using the straight-line method over the following useful lives:

| | |
|--------------|---------------|
| Equipment | 5 to 7 years |
| Improvements | 7 to 39 years |
| Building | 15 years |

All acquisitions of property and equipment, and any expenditures for repairs and maintenance which materially prolong the useful lives of assets, are capitalized. The cost of equipment that is retired or otherwise disposed of, and the related accumulated depreciation, are removed from the accounts. Any gain or loss is reported as other income.

Mortgage Acquisition Costs

Mortgage acquisition costs are amortized over the term of the refinanced mortgage.

The accompanying accountant's report is an integral part of these financial statements.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Note A, continued

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through November 13, 2015 (the date the financial statements were available to be issued).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results can differ from those estimates.

Income Taxes

The Organization is exempt from income taxes under Section 501(c) 3 of the Internal Revenue Code. The Organization is not classified as a private foundation for tax purposes.

FASB ASC 740 Accounting for Income Taxes requires organizations to determine whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. For tax-exempt entities, the tax exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize tax-exempt status. The Organization believes it has no uncertain tax positions that will significantly increase or decrease in twelve months after the balance sheet date. The Organization has not been subject to federal or state income tax examinations by tax authorities and its open tax periods are 2014, 2013 and 2012.

Note B - Scope of Business

During the year 1999, the Organization filed a restated certificate of incorporation with the state of New York, containing a mission statement which is similar to its historical purpose statement, but more accurately reflects the Organization's direct involvement in its medical and counseling ministries. These ministries were carried out by employees as well as professionals and groups under contract with the Organization through December 31, 2011; thereafter the providers became employees.

The statement of purpose states that His Branches, Inc is formed and operated exclusively for religious and charitable purposes under Section 501(c)(3) of the Internal Revenue Code to foster intelligent intercessory prayer on behalf of the human community, both locally and beyond, to enable and assist Christian physicians, including licensed diagnostic and treatment centers and other individuals and groups who believe in the sanctity of all human life from conception to natural death, and who desire to develop and sponsor workshops, outreach programs, and family oriented ministries of guidance and inspiration, hope and encouragement, spiritual and religious instruction, and health and wellness care for persons who live in underserved neighborhoods in the Rochester, NY area and elsewhere.

Such services are made available to persons in need regardless of religious affiliation or denomination and without discrimination against any individual on the basis of age, gender, race, ethnicity, creed, lifestyle or socioeconomic status, ability to pay, or insurance coverage.

The accompanying accountant's report is an integral part of these financial statements.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Note C - Local Activity

During the year ended June 30, 2015, the organization's facility was used primarily by the medical ministry described in Note B, and by Embracing Options, a pregnancy care center offering free informational and counseling services to women in crisis pregnancy situations, primarily in the Sector 4 area of Rochester. A second pregnancy care center is operated in Webster, NY. The expenses for this activity are included with the other local ministries under Medical and Community Services on the Statement of Functional Expenses.

His Branches, operating as His Branches Health Services, also had provided medical and billing services to Joy Family Medicine (JFM), which was a separate and independent medical center on North Goodman Street in the city of Rochester. These services were reimbursed by JFM at cost and the activities of that medical center have not been included in these financial statements.

As of the balance sheet date, the operations of JFM have been merged into His Branches; and it is now another branch of the organization.

During the year ended June 30, 2012, Rochester Youth Outreach, a ministry to neighborhood youth, became part of His Branches. Since this activity has been almost inactive during the years presented, its revenue and expense are not material, but the revenue is included under Unrestricted Donations on the Statement of Activities and the expense is included in the Local column of the Statement of Functional Expenses.

His Branches Community, formerly known as Arnett Block Association is an activity of His Branches. Its revenue is included under Unrestricted Donations on the Statement of Activities and the expense is included in the Local column of the Statement of Functional Expenses.

Note D - Receivables

Grants and pledges receivable at June 30, 2015 and 2014 were \$72,078 and \$75,738 respectively. These receivables have been reduced to reflect the amounts expected to be collected.

Patient revenue receivable consists of amounts due from patients and third party insurance carriers, less an allowance for the uncollectible portion based on past collection experience. Amounts due from third parties (insurance companies) are first reduced from the amounts billed to the contractually due amounts, and then an allowance for doubtful accounts is provided. The allowance for doubtful accounts also covers receivables associated with self-pay patients (those without insurance and those with deductible and copayment balances due for which third-party coverage exists for part of the bill). This provision for bad debts was about 63% of receivables at June 30, 2015 and about 53% at June 30, 2014.

The Organization has not changed its charity care policy or its sliding scale of fees during the fiscal years presented. See also Note A, Patient Revenue Receivable and Allowance for Doubtful Accounts.

The accompanying accountant's report is an integral part of these financial statements.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Note E - Property and Equipment

Land, building and equipment consisted of the following at June 30:

| | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|
| Building | \$ 40,000 | \$ 40,000 |
| Improvements, Arnett Blvd | 323,930 | 315,024 |
| Equipment and long-term software | <u>114,871</u> | <u>92,022</u> |
| | 478,801 | 447,046 |
| Less: accumulated depreciation and amortization | <u>293,708</u> | <u>267,339</u> |
| | 185,093 | 179,707 |
| Add: Land | <u>21,636</u> | <u>21,636</u> |
| | | |
| Net property and equipment | <u>\$206,729</u> | <u>\$201,343</u> |

Depreciation expense for the years ended June 30, 2015 and 2014 amounted to \$26,369 and \$23,308, respectively.

The building and contents are listed as collateral security in the refinanced mortgage as described in note J.

Note F – Mortgage Acquisition Costs

Total costs incurred to refinance the mortgage in August 2013 were \$3,693, and this amount was recorded as an amortizable asset. Cumulative amortization at June 30, 2015 was \$341. Previously recorded mortgage acquisition costs related to the prior mortgage and Line of Credit were written off at the time of refinancing..

Note G – Note Payable to bank

As of June 30, 2013, the organization's outstanding liability to its bank on the line of credit was \$82,104. This line of credit was terminated and the obligation was consolidated into the refinancing transaction in August 2013. As of the date of issuance of these financial statements, a new line of credit of \$60,000 is in process of negotiation with the organization's bank.

Note H – Accrued Salaries

Accrued salaries of \$48,017 at June 30, 2015 and \$34,756 at June 30, 2014, include the liabilities for employees' cumulative unused vacation time, \$30,635 and \$22,356 respectively, accrued according to the Organization's policy.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Note I - Accrued Interest and Notes Payable to Providers

Prior to November 2006, three practitioners had agreed to carry out the Organization's stated purpose, collecting their own patient revenues and reimbursing the Organization for its overhead: the cost of the administrative services as well an additional amount for the space provided. Thereafter, all patient revenues are assigned to His Branches and the practitioners were paid as independent contractors until December 31, 2011, during which His Branches became an Article 28 Diagnostic and Treatment Center under the laws of New York. The continuing providers then became employees of the organization.

Therefore, in November 2006, promissory notes were issued to the three formerly independent practitioners for their supplies and for the patient revenues receivable as of that date, less an allowance for the uncollectible portion.

Under the terms of the notes payable, 48 monthly payments of principal and interest were to have been paid, and interest of 8.25% per annum began to accrue on these obligations on January 1, 2007. However, only eight payments consisting entirely of interest have been paid in prior years. Offers were made to and accepted by two of the three obligees to accept an immediate discounted payoff amount reflecting a lower interest rate for the years after 2011.

Therefore management did not accrue additional interest, but has paid off the two obligees during the year ended June 30, 2015. The obligation to the remaining note holder was renegotiated at the same time to be continued at the rate of 2%, per annum, and interest has been accrued at that rate on these financial statements. This remaining note holder is the organization's founder and continuing principal physician in the medical ministry. The entire obligation is treated as due within one year.

| | |
|--|------------------|
| The remaining note payable consisted of the following at June 30, 2007 | \$ 28,996 |
| Interest accrued and added to principal through June 30, 2013 | <u>35,844</u> |
| Combined principal and interest due as of June 30, 2014 | 47,256 |
| Interest accrued at 2% for the year ended June 30, 2015 | <u>945</u> |
| Principal and interest balance due as of June 30, 2015 | <u>\$ 48,201</u> |

The accompanying accountant's report is an integral part of these financial statements.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Note J - Mortgage Payable

The organization's mortgage on its building and its existing Line of Credit obligation were consolidated and refinanced in a new mortgage in August 2013. The proceeds totaled \$195,000, consisting of \$63,676 to pay off the prior mortgage balance, \$79,759 to eliminate the prior note payable on the prior Line of Credit, and the additional proceeds of approximately \$49,000 (net of closing costs) were used for major repairs and improvements to the organization's property on Arnett Boulevard.

The new mortgage carries a fixed rate of 5.49% per annum for a five year term, after which it may vary within stated parameters. Monthly installments of \$1,349 including principal and interest are payable over the term of ten years. A prohibitive penalty fee applies if the mortgage is fully prepaid within the first five years; however, the organization has been paying additional amounts against the principal since inception. The bank has a collateral security interest in the mortgaged real property.

| | |
|--|-------------------|
| Mortgage payable consisted of the following at June 30, 2015 | \$ 173,158 |
| Less: amount due within one year | <u>(6,849)</u> |
| Amount due after one year | <u>\$ 166,309</u> |

Annual maturities of long-term debt at June 30, 2015 are as follows:

| <u>Year ended June 30</u> | <u>Amount</u> |
|---------------------------|-------------------|
| 2016 | 6,849 |
| 2017 | 7,234 |
| 2018 | 7,641 |
| 2019 | 8,072 |
| 2020 and thereafter | <u>143,362</u> |
| Total | <u>\$ 173,158</u> |

Accrued interest at June 30, 2015 and 2014 was zero on both dates, since interest had been paid through the end of the month.

Note K – Lease and Space-sharing Arrangements

In furtherance of the stated purpose of His Branches, Inc, the Organization from time to time provides space, administrative and synergistic services to other organizations, which provide community services in accordance with the purpose stated in Note B. However, all such organizations have now become programs of His Branches; and their financial activities are now included under the Local column on the Statement of Functional Expenses, with revenue attributable to them included under Donations and grants received, on the Statement of Activities.

The accompanying accountant's report is an integral part of these financial statements.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Note L – Employees' Retirement Plan and Fringe Benefits

The organization offers health and dental insurance to all eligible employees; and its policy is to provide a stated percentage of the current premium cost of a plan with single individual coverage.

Eligible employees may also elect to defer a portion of their compensation to a retirement plan established under Section 401 (k) of the Internal Revenue Code. The organization has elected to make no employer contributions to the plan during the years presented.

Note M – Related Party

The medical and counseling services described in Note C are provided by practitioners who also donate a significant portion of their time to the patients and to the Organization. The leading physician is also the founder of His Branches, Inc., and served as its president until June 30, 2006. The donated portion of the providers' services does not meet the criteria for reporting as revenue and expense on the Statement of Activities.

Note N – Affiliations and Memberships

The Organization is a member in good standing of the Evangelical Council for Financial Accountability, a voluntary national association of not-for-profit organizations which annually reviews the financial statements and provides accountability in fund raising methods and public disclosure issues. Membership requirements include adherence to a statement of faith, a code of ethics, organizational structure guidelines, and the engagement of an annual audit by a Certified Public Accountant.

Note O – Commitments and Contingencies

The organization has been granted status as an Article 28 Diagnostic and Treatment Center by the State of New York. Because of the transition to clinic status, the structure of the organization has changed significantly: patient fees are now reported as revenue of His Branches and the providers are now employees of the organization.

His Branches is committed to provide contact, support, oversight, and accountability for a missionary to Lebanese refugees in Israel. Restricted Net Assets on the Statement of Financial Condition represents \$870 and \$1000 for the years ended June 30, 2015 and 2014, designated by donors for this ministry.

His Branches, operating as His Branches Health Services, also provided medical and billing services to Joy Family Medicine (JFM), a separate and independent medical practice on North Goodman Street in the city of Rochester. This entity has been brought under His Branches oversight during the year ended June 30, 2015; the two medical ministries to be known collectively as His Branches Health Services. During the years presented, services to Joy Family Medicine have been reimbursed at cost and the activities of that medical practice are not included in these financial statements. See also Note P, Subsequent Events.

The Medical Community Christian Fellowship also is an immaterial activity of His Branches; and its activities are included in these financial statements.

The accompanying accountant's report is an integral part of these financial statements.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Note P - Subsequent Events

The transition to clinic billing has been largely accomplished during the year ended June 30, 2015, but new systems have recently been put in place to enable more complete Electronic Medical Records and a new universal coding system. These new systems affect the daily operations significantly, but management does not expect a major disruption of the mission due to these changes.

In preparing these financial statements, the organization has evaluated events and transactions for potential recognition or disclosure through November 16, 2015, the date the financial statements were available to be issued.

Note Q – Disclosures and Report Modifications Related to Prior Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2014, from which the summarized information was derived.