

FREDERICKSEN & SIRIANNI, LLP
CERTIFIED PUBLIC ACCOUNTANTS
PROTECTING YOUR WORTH.

**HIS BRANCHES, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2005**

HIS BRANCHES, INC.

TABLE OF CONTENTS

Independent Accountant's Report

Exhibit "A"	Statements Of Financial Position June 30, 2005 and 2004
Exhibit "B"	Statement Of Activities For The Year Ended June 30, 2005
Exhibit "C"	Statement Of Cash Flows For The Year Ended June 30, 2005
Exhibit "D"	Statement Of Functional Expenses For The Year Ended June 30, 2005

Notes To Financial Statements

Independent Auditor's Report

**To: The Board of Directors
His Branches, Inc.
Rochester, New York**

We have audited the accompanying statements of financial position of His Branches, Inc. (a non-profit organization) as of June 30, 2005, and the related statement of activities, functional expenses, and cash flow for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2005 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The June 30, 2004 Statement of Financial Position was reviewed by us, and our report thereon, dated January 5, 2005, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

Fredericksen & Sirianni LLP

Fredericksen & Sirianni, LLP
Certified Public Accountants

November 10, 2005

Andrew F. Fredericksen, CPA* • William T. Sirianni, CPA

www.fredericksen-sirianni.com

* Also licensed in the State of Florida

Members of the American Institute of Certified Public Accountants & the New York State Society of Certified Public Accountants.

HIS BRANCHES, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2005 AND 2004

	Audited <u>2005</u>	Unaudited <u>2004</u>
<u>ASSETS</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 6,570	\$ 5,036
Escrow account for parking area	0	43,813
Grants receivable	0	48,750
Rent receivable	0	1,350
Prepaid expenses	1,009	1,951
	<u>7,579</u>	<u>100,900</u>
<u>Property and equipment</u>		
Land, building and equipment	330,049	285,311
Accumulated depreciation	(148,498)	(139,350)
	<u>181,551</u>	<u>145,961</u>
Net property and equipment		
	<u>181,551</u>	<u>145,961</u>
Mortgage acquisition costs, net of accumulated amortization	<u>5,876</u>	<u>6,365</u>
<u>TOTAL ASSETS</u>	<u>\$ 195,006</u>	<u>\$ 253,226</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 501	\$ 3,701
Credit card liabilities	1,031	0
Accrued payroll and payroll taxes	677	50
Accrued interest	886	930
Security deposit	0	400
Advances from physicians (semi-monthly)	2,681	0
Mortgage payable - Bank	148,957	156,373
	<u>154,733</u>	<u>161,454</u>
Total Liabilities		
	<u>154,733</u>	<u>161,454</u>
<u>NET ASSETS</u>		
Unrestricted	38,823	43,022
Temporarily restricted	1,450	48,750
Permanently restricted	0	0
	<u>40,273</u>	<u>91,772</u>
Total net assets		
	<u>40,273</u>	<u>91,772</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 195,006</u>	<u>\$ 253,226</u>

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

**HIS BRANCHES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUES, GAINS AND OTHER SUPPORT</u>			
Donations received	\$ 34,257	\$ 33,419	\$ 67,676
Program fees - medical workshop	6,342	-	6,342
Rental income and space-sharing reimbursements	37,235	-	37,235
Investment income	63	-	63
Net assets released from restrictions: Restrictions satisfied by payments	80,719	(\$ 80,719)	-
	<u>158,616</u>	<u>(47,300)</u>	<u>111,316</u>
Total Revenues, gains and other support			
<u>EXPENSES (Exhibit D)</u>			
Program services	84,550	-	84,550
Supporting services	66,400	-	66,400
Fund raising expenses	11,865	-	11,865
	<u>162,815</u>	<u>-</u>	<u>162,815</u>
Total Expenses			
CHANGE IN NET ASSETS	(4,199)	(47,300)	(51,499)
Net Assets at Beginning of Year	<u>43,022</u>	<u>48,750</u>	<u>91,772</u>
NET ASSETS AT END OF YEAR	<u>\$ 38,823</u>	<u>\$ 1,450</u>	<u>\$ 40,273</u>

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

HIS BRANCHES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Change in net assets	\$ (51,499)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Amortization	489
Depreciation	9,753
Non-cash donations	(700)
Gain on sale of securities or assets	0
Changes in operating assets and liabilities:	
Decrease (increase) in receivables	50,100
Decrease (increase) in prepaid expenses	942
Increase (decrease) in accounts payable	(2,169)
Increase (decrease) in accrued expenses	183
Increase (decrease) in advances from physicians	<u>2,681</u>
Net cash provided by operating activities	<u>9,780</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Capital acquisitions	(44,642)
Escrow funds used for asset acquisition	<u>43,813</u>
Net cash used by investing activities	<u>(829)</u>
 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>	
Mortgage principal payments	<u>(7,416)</u>
Net cash used by financing activities	<u>(7,416)</u>
 <u>DECREASE IN CASH AND CASH EQUIVALENTS</u>	 1,535
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>5,036</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u><u>\$ 6,571</u></u>

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

**HIS BRANCHES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005**

	Medical and Community Services		General and Administrative	Fund Raising	Total
	Local	Overseas			
EXPENSES					
Grants and program expenses	\$ 23,217	\$ 32,069	\$ -	\$ -	\$ 55,286
Salaries and payroll taxes	143,361	629	43,376	6,287	193,653
Travel and meetings	4,447	-	-	1,072	5,519
Insurance	20,127	75	2,629	751	23,582
Licenses and permits	1,135	-	652	93	1,880
Office supplies and expense	16,240	38	2,653	383	19,314
Dues, fees and subscriptions	359	4	290	42	695
Telephone	6,484	16	1,114	162	7,776
Website and publicity	149	7	515	75	746
Interest	5,852	108	3,785	1,082	10,827
Property taxes and utilities	9,688	39	1,368	391	11,466
Repair, maintenance and supplies	13,926	51	1,761	504	16,242
Amortization	264	5	171	49	489
Depreciation	5,267	98	3,414	974	9,753
Legal and accounting	-	-	4,177	-	4,177
Filing fees	-	-	495	-	495
Total	250,496	33,139	66,400	11,865	361,900
Less, overhead reimbursements	(199,085)	-	-	-	(199,085)
NET EXPENSES - EXHIBIT B	\$ 51,411	\$ 33,139	\$ 66,400	\$ 11,865	\$ 162,815

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

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

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. A fiscal year ending on June 30 was adopted for the current and future reporting periods.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) Number 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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.

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.

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.

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	5 to 31 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 being amortized over the fifteen year term of the refinanced mortgage. Total costs incurred to acquire the mortgage in June 2002 were \$7,344. Of these costs, \$489 was amortized in the period presented.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2005

Note A, continued

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.

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 members 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 SFAS No. 116, *Accounting for Contributions Received and Contributions Made*.

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 are carried out by professionals and groups under contract with the Organization.

Of these service providers, those with the ability to pay share in the cost of the space and administrative services provided by His Branches. See also Notes C, G, H, I and K.

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 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.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2005

Note B, continued

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.

Note C - Rent Receivable

At June 30, 2004, three months rent was due from Genesee Valley Sickle Cell Disease Association, totaling \$1,350. This amount was collected in the next fiscal year and the Association's security deposit was also recognized as rental income. See also Notes B, G, H, I and K.

Note D - Property and Equipment

Land, building and equipment consisted of the following at June 30, 2005.

Building	\$ 40,000
Improvements	242,619
Equipment	<u>25,794</u>
	308,413
Less: accumulated depreciation	<u>148,498</u>
	159,915
Add: Land	<u>21,636</u>
Net property and equipment	<u>\$181,551</u>

Depreciation expense for the year ended June 30, 2005 was \$9,753.

Note E - Accrued Payroll and Payroll Taxes

Accrued payroll of \$120 at June 30, 2005 represents the current liability for employees' cumulative unused vacation time, according to the Organization's policy. Accrued payroll taxes at June 30, 2005 were \$557.

**HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2005**

Note F - Mortgage Payable and Escrowed Funds

The prior mortgage on the organization's building was paid off in June 2002 with a portion of the \$170,000 proceeds of a refinanced mortgage. The additional proceeds of \$56,000 were escrowed to fund the purchase and improvement of an adjacent vacant lot for use as a parking lot and green space. During 2003 and 2004, \$12,187 was expended for fees and the purchase of the land, which left a balance at June 30, 2004 of \$43,813 in escrow. These funds were expended and the project was completed during the year ended June 30, 2005.

The new mortgage carries a fixed rate for a fifteen year term payable in monthly installments of \$1,541 including principal and interest. Interest is computed at the annual rate of 7.14%, with a penalty fee payable if the mortgage is prepaid within the first five years.

The bank has a collateral security interest in the mortgaged real property.

Mortgage payable consisted of the following at June 30, 2005	\$ 148,957
Less: amount due within one year	<u>8,430</u>
Amount due after one year	<u>\$ 140,527</u>

Annual maturities of long-term debt at June 30, 2005 are as follows:

<u>Year ended June 30</u>	<u>Amount</u>
2006	8,430
2007	9,050
2008	9,720
2009	10,000
2010 and thereafter	<u>111,757</u>
Total	<u>\$ 148,957</u>

Note G - Commitments

His Branches, Inc. is committed to provide contact, support, oversight, and accountability for a missionary to Lebanese refugees in Israel.

The organization has a collaborative relationship with The Genesee Valley Sickle Cell Disease Association (GVSCDA), under the direction of Dr. James Bowman, who is a member of the board of His Branches. This group is inactive at the present time, pending further funding.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2005

Note G, continued

In addition, His Branches, Inc. has a collaborative arrangement with the Institute for Social Entrepreneurship of Roberts Wesleyan College. This organization is conducting community needs assessment studies and works with neighborhood start-up businesses. Its Director is also a member of the board of His Branches. This organization has also scaled back its activities until further funding is secured.

Note H – Lease and Space-sharing Arrangements

In furtherance of the stated purpose of His Branches, Inc, the Organization provides space, administrative and synergistic services to the organizations described in Note G, which provide community services in accordance with the purpose stated in Note B.

A new ministry under the auspices of His Branches, called Embracing Options, was begun during the year ended June 30, 2005. This service provides counseling and support to women in crisis pregnancies and educational services to those at risk for abortion. The activity uses less than one-fourth of the facilities owned by His Branches, and is not expected to contribute to occupancy expenses during the next few years.

The medical ministry of His Branches is currently using the balance of the property. His Branches contracts directly with medical and counseling practitioners, providing them with administrative daily support.

The practitioners have agreed to carry out the Organization's stated purpose and to reimburse the Organization for its overhead: the cost of the administrative services as well an additional amount for the space provided. The space provision portion of the overhead reimbursement has been \$2,000 monthly for the period presented, and the contract is expected to be renewed thereafter under similar terms. This rate is considered to be equivalent to a market rate. See also Notes I and K.

The space sharing reimbursements to be received as of June 30, 2005 for the next five years are as follows:

<u>Year ending June 30</u>	<u>Amount</u>
2006	\$24,000
2007	24,000
2008	24,000
2009	24,000
2010	24,000

Note I – Advances from physicians

In the process of billing the practitioners for the overhead discussed in Note H, an advance toward each month's expenses is requested from each contracted practitioner, which is then adjusted up or down after the actual monthly expenses have been calculated. At June 30, 2005 the advances from the physicians for the month of June were larger than the applicable expenditures by \$2,681. This amount has subsequently been applied to July expenses in accordance with the agreement with the physicians.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2005

Note J – Non-cash Donations

During the year ended June 30, 2005, a used vehicle was donated to His Branches for the use of the Executive Director. The value of all personal use of the vehicle has been reimbursed by him, and when his services were terminated at the end of June 2005, the vehicle was transferred to him in lieu of cash salary and severance pay.

Note K – Related Party

The medical and counseling services described in Note H are provided by practitioners who 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 currently serves as its President.

Note L – 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 M – Contingencies

If current operations were to continue at the same level of expense as in the years presented, the ability of the Organization to continue as a going concern could be impaired. However, the position of Executive Director, since it had been funded with a specific grant, has been suspended since June 2005. Additionally, the organization has applied to the New York State Department of Health for, and expects to be granted, authorization to provide medical services under its own auspices as an Article 28 Diagnostic and Treatment Facility. When this status is achieved, the structure of the organization will change significantly: patient fees will become revenue of His Branches, all health care providers on site will become employees of the organization, and the clinic will be eligible for additional grant funds and increased insurance reimbursements. Therefore, management believes that the organization's present and future financial viability are secure.