

**HIS BRANCHES, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2011 AND 2010**

HIS BRANCHES, INC.

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**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, 2011 and 2010, and the related statement of activities, functional expenses, and cash flow for the years 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 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 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, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Fredericksen & Sirianni, LLP

Fredericksen & Sirianni, LLP
Certified Public Accountants

March 13, 2012

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

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* 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, 2011 AND 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 28,997	\$ 35,194
Patient revenue receivable, net of allowance for doubtful accounts of \$194,110 for 2011 and \$176,425 for 2010	129,295	126,662
Grants and pledges receivable	9,870	2,750
Accounts receivable - trade	230	150
Reimbursements receivable from employees	1,826	0
Prepaid expenses	1,405	3,067
Total current assets	<u>171,623</u>	<u>167,823</u>
<u>Property and equipment</u>		
Land, building and equipment	382,388	407,320
Accumulated depreciation	(211,134)	(203,263)
Net property and equipment	<u>171,254</u>	<u>204,057</u>
Mortgage acquisition costs, net of accumulated amortization of \$4,330 for 2010 and \$3,703 for 2009	<u>4,448</u>	<u>5,075</u>
<u>TOTAL ASSETS</u>	<u>\$ 347,325</u>	<u>\$ 376,955</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 20,550	\$ 42,449
Credit card liabilities	19,203	16,530
Note payable to bank	85,878	85,878
Accrued salaries	9,119	14,010
Accrued interest	819	848
Security deposit from organization sharing space	70	600
Notes payable to providers, including interest in arrears	85,603	79,078
Mortgage payable - Bank	91,195	102,623
Total Liabilities	<u>312,437</u>	<u>342,016</u>
<u>NET ASSETS</u>		
Unrestricted	30,788	34,749
Temporarily restricted	4,100	190
Permanently restricted	-	-
Total net assets	<u>34,888</u>	<u>34,939</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 347,325</u>	<u>\$ 376,955</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, 2011 AND 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2011</u>	<u>Total 2010</u>
<u>REVENUES, GAINS AND OTHER SUPPORT</u>				
Donations and grants received	\$ 115,098	\$ 7,200	\$ 122,298	\$ 119,579
Donated materials and services	2,500	-	2,500	1,000
Program fees - patient revenue and medical workshops	627,394	-	627,394	622,435
Rental income and space- sharing reimbursements	17,680	-	17,680	1,200
Loss on disposition of assets	-	-	-	(2,453)
Net assets released from restrictions: Restrictions satisfied by payments	3,290	(3,290)	-	-
Total Revenues, gains and other support	765,962	3,910	769,872	741,761
<u>EXPENSES (Exhibit D)</u>				
Program services	646,738	-	646,738	594,727
Supporting services	115,390	-	115,390	118,642
Fund raising expenses	7,795	-	7,795	12,163
Total Expenses	769,923	-	769,923	725,532
CHANGE IN NET ASSETS	(3,961)	3,910	(51)	16,229
Net Assets at Beginning of Year	34,749	190	34,939	18,710
NET ASSETS AT END OF YEAR	\$ 30,788	\$ 4,100	\$ 34,888	\$ 34,939

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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (51)	\$ 16,229
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization	627	626
Depreciation	11,479	13,609
Increase in allowance for doubtful accounts	17,685	79,895
Interest accrued on notes to providers	6,525	5,615
Loss on disposition of asset	0	2,453
Donation of leasehold improvements	52,686	0
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	(29,344)	(122,771)
Decrease (increase) in prepaid expenses	1,662	(2,117)
Increase (decrease) in accounts payable	(19,226)	23,339
Increase (decrease) in accrued expenses	<u>(5,450)</u>	<u>2,332</u>
Net cash provided by operating activities	<u>36,593</u>	<u>19,210</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Capital acquisitions	<u>(31,362)</u>	<u>(5,906)</u>
Net cash used by investing activities	<u>(31,362)</u>	<u>(5,906)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from Line of Credit	0	5,000
Mortgage principal payments	<u>(11,428)</u>	<u>(10,626)</u>
Net cash used by financing activities	<u>(11,428)</u>	<u>(5,626)</u>
<u>INCREASE IN CASH AND CASH EQUIVALENTS</u>	(6,197)	7,678
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>35,194</u>	<u>27,516</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 28,997</u>	<u>\$ 35,194</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, 2011 AND 2010**

	Medical and Community Services		General and Administrative	Fund Raising	Total 2011
	Local	Overseas			
EXPENSES					
Grants and program expenses	\$ 88,017	\$ 3,290	\$ -	\$ -	\$ 91,307
Joint costs of combined education and fund raising event	3,309	-	-	4963	8,272
Salaries, provider fees and payroll taxes	413,123	-	51,930	-	465,053
Travel, meetings, education and training	5,110	-	910	-	6,020
Employee benefits	35,135	-	8,784	-	43,919
General business insurance	16,862	211	3,899	105	21,077
Uncollectibles and bad debts	17,685	-	-	-	17,685
Licenses and permits	970	-	242	-	1,212
Medical billing net of reimbursements	-	-	7,760	-	7,760
Postage, printing and reproduction	3,724	37	3,166	522	7,449
Office supplies and expense	8,920	89	7,585	1,250	17,844
Dues, fees and subscriptions	1,124	-	281	-	1,405
Telephone and communication	8,532	-	2,133	-	10,665
Website and publicity	2,082	35	1,041	312	3,470
Interest	6,698	104	13,482	447	20,731
Space and occupancy expense	21,799	136	5,177	136	27,248
Amortization	502	3	119	3	627
Depreciation	9,184	57	2,181	57	11,479
Legal and accounting	-	-	6,650	-	6,650
Filing fees	-	-	50	-	50
NET EXPENSES - EXHIBIT B	\$ 642,776	\$ 3,962	\$ 115,390	\$ 7,795	\$ 769,923

Exhibit D
(Continued)

HIS BRANCHES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	Medical and Community Services		General and Administrative	Fund Raising	Total 2010
	Local	Overseas			
EXPENSES					
Grants and program expenses	\$ 24,894	\$ 5,000	\$ -	\$ -	\$ 29,894
Combined educational and fund raising event	6,695	-	-	10,042	16,737
Salaries, provider fees and payroll taxes	350,567	313	65,543	1,033	417,456
Travel and meetings	838	-	210	-	1,048
Employee benefits	33,249	-	7,432	-	40,681
General business insurance	15,984	200	3,696	100	19,980
Uncollectibles and bad debts	79,895	-	-	-	79,895
Licenses and permits	613	-	153	-	766
Postage, printing and reproduction	4,413	37	2,869	37	7,356
Office supplies and expense	17,184	144	11,168	144	28,640
Dues, fees and subscriptions	1,178	-	295	-	1,473
Donated professional services	-	-	1,000	-	1,000
Telephone and communication	7,400	-	1,850	-	9,250
Website and publicity	1,552	26	776	233	2,587
Interest	7,294	143	10,633	350	18,420
Space and occupancy expense	25,291	158	6,007	158	31,614
Amortization	501	3	119	3	626
Depreciation	11,092	63	2,391	63	13,609
Legal and accounting	-	-	4,450	-	4,450
Filing fees	-	-	50	-	50
NET EXPENSES - EXHIBIT B	\$ 588,640	\$ 6,087	\$ 118,642	\$ 12,163	\$ 725,532

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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 FASB ASC 958 (SFAS Number 117, *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.

Contributions -- The Organization has adopted FASB ACS 958-605 (SFAS No. 116, *Accounting for Contributions Received and Contributions Made*).” Under SFAS No. 116, 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.

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 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.

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, 2011 AND 2010

Note A, continued

Mortgage Acquisition Costs

Mortgage acquisition costs are amortized over the fifteen year term of the refinanced mortgage and the related line of credit.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through March 13, 2012 (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.

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 ACS 958-605 (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 employees as well as 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, K and L.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note B - Scope of Business, continued

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.

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 - Local Activity

During the year ended June 30, 2010, 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 has been opened 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 Grace Family Medicine, also provides medical billing services to Joy Family Medicine (JFM), which is a separate and independent medical practice on North Goodman Street in the city of Rochester. These services are reimbursed by JFM and the activities of that medical practice are not included in these financial statements.

In addition, a local church began using part of the facility on May 1, 2010, for one year, with monthly rent payments of \$600. Their security deposit of \$600 was also applied to the last month's rent in June, 2011. Another organization is using part of the facility on a temporary and part time basis, and has provided a \$70 security deposit.

The Arnett Block Association has a collaborative relationship with His Branches, but is not a tenant and its activities are not included in these financial statements. See also Note K.

Note D - Receivables

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.

Accounts receivable consist of amounts due during the normal course of business. The outstanding receivable balance is expected to be collected in full and therefore no allowance for doubtful accounts was established.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note D – Receivables, continued

Grants and pledges receivable at June 30, 2011 and 2010 were \$9,870 and \$2,750 respectively. These receivables have been reduced to reflect the amounts expected to be collected.

Note E - Property and Equipment

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

	<u>2011</u>	<u>2010</u>
Building	\$ 40,000	\$ 40,000
Improvements, Arnett Blvd location	282,701	252,095
Improvements, North Goodman location Including \$45,000 donated services and materials	0	56,295
Equipment and long-term software	<u>38,051</u>	<u>37,294</u>
	360,752	385,684
Less: accumulated depreciation and amortization	<u>211,134</u>	<u>203,263</u>
	149,618	182,421
Add: Land	<u>21,636</u>	<u>21,636</u>
 Net property and equipment	 <u>\$171,254</u>	 <u>\$204,057</u>

The improvements to the Gerhardt Neighborhood Outreach Center (GNOC), a separate and independent not-for-profit corporation, were treated as assets of His Branches in prior years. During the year ended June 30, 2011, the ownership of these assets were transferred to GNOC which now administers the pregnancy services offered by this Corporation. The net book value of the improvements at the time of the transfer was \$52,686, which is included in Grants and Program Expense on the Statement of Functional Expenses.

Depreciation expense for the years ended June 30, 2011 and 2010 amounted to \$11,479 and \$13,609, respectively.

Note F – Mortgage Acquisition Costs

Total costs incurred to acquire the mortgage in June 2002 were \$7,344. During June, 2007, a fee of \$2,059 was paid to secure a new line of credit with the organization's bank, stipulating a maximum borrowing potential of \$100,000. Amortization expense for the years ended June 30, 2011 and 2010 amounted to \$627 each year.

Note G – Note Payable to bank

During the year ended June 30, 2010, the Organization drew down funds totaling \$5,000 on its \$100,000 line of credit with its bank.

As of June 30, 2011 and 2010, the outstanding liability on the line of credit was \$85,878. This obligation carries interest at the annual rate of 5.25%, and monthly interest payments have been made totaling \$4,521 for the year ended June 30, 2011.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note H – Accrued Salaries

Accrued salaries of \$9,119 at June 30, 2011 and \$14,010 at June 30, 2010, include the liabilities for employees' cumulative unused vacation time, \$5,390 and \$4,536 respectively, accrued according to the Organization's policy.

Note I - Accrued Interest and Notes Payable to Providers

Prior to November 2006, the 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, the patient revenues are assigned to His Branches and the practitioners are paid an agreed amount as independent contractors. Also in November 2006, promissory notes were issued to the three current 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. Therefore the interest in arrears has been added to the principal balances: \$6,524 for the year ended June 30, 2011 and \$5,615 for the year ended June 30, 2010; and the entire obligation is treated as due within one year.

These notes payable consisted of the following at June 30, 2007	\$ 64,466
Interest accrued and added to principal through June 30, 2010	<u>14,613</u>
Combined balance due as of June 30, 2010	79,079
Interest accrued and added to principal, year ended June 30, 2011	<u>6,524</u>
Combined balance due as of June 30, 2011	<u>\$ 85,603</u>

Note J - Mortgage Payable

The organization's mortgage on its building was refinanced and increased in June 2002. The additional proceeds of \$56,000 were used to purchase and improve an adjacent vacant lot for a parking lot and green space.

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 was prepaid within the first five years.

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

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note J - Mortgage Payable, continued

Mortgage payable consisted of the following at June 30, 2011	\$ 91,195
Less: amount due within one year	<u>12,400</u>
Amount due after one year	<u>\$ 78,795</u>

Annual maturities of long-term debt at June 30, 2011 are as follows:

<u>Year ended June 30</u>	<u>Amount</u>
2012	12,400
2013	13,320
2014	14,300
2016	15,700
2015 and thereafter	<u>35,475</u>
Total	<u>\$ 91,195</u>

Accrued interest at June 30, 2011 consists of \$276 on the line of credit note payable and \$544 on the mortgage obligation.

At June 30, 2010, accrued interest consisted of \$236 on the line of credit and \$612 on the mortgage obligation.

Note K – 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 C, which provide community services in accordance with the purpose stated in Note B.

Embracing Options, a ministry of His Branches, began during the year ended June 30, 2006. The activity uses less than one-fourth of the Arnett Boulevard facilities, and has opened a second center in Webster, NY.

In addition, a local church began using part of the facility in April, 2010, under a lease ended in June 2011, specifying monthly rent payments of \$600. The security deposit of \$600 was also applied to the last month's rent.

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.

Note L – 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.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

Note M – 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 N – Commitments and Contingencies

The organization has been granted status as an Article 28 Diagnostic and Treatment Center by the State of New York. The transition to clinic status is expected to be accomplished in January 2012. The structure of the organization will change significantly: patient fees are now reported as revenue of His Branches, but when transition is complete, the providers will become employees of the organization, and the clinic will be eligible for increased insurance reimbursements.

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 includes \$100 and \$190 for the years ended June 30, 2011 and 2010, designated by donors for this ministry.

His Branches, operating as Grace Family Medicine, also provides medical and billing services to Joy Family Medicine, a separate and independent medical practice on North Goodman Street in the city of Rochester. Efforts are under way to file a certificate of need application to bring this practice under His Branches oversight. These services are reimbursed and the activities of that medical practice are not included in these financial statements.

The Arnett Block Association has a collaborative relationship with His Branches, but is not a tenant and its activities are not included in these financial statements.