HIS BRANCHES, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2006 AND 2005

HIS BRANCHES, INC.

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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, 2006 and 2005, 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 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, 2006 and 2005 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

October 19, 2006

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.

Exhibit A

HIS BRANCHES, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 8,792	$ 6,570
Prepaid expenses	2,015	1,009
Total current assets	10,807	7,579
Property and equipment		
Land, building and equipment	330,049	330,049
Accumulated depreciation	(157,156)	(148,498)
Net property and equipment	172,893	181,551
Mortgage acquisition costs, net of accumulated amortization	5,396	5,876
TOTAL ASSETS	$ 189,096	$ 195,006
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 814	$ 501
Credit card liabilities	6,747	1,031
Accrued payroll and payroll taxes	120	677
Accrued interest	839	886
Advances from physicians (semi-monthly)	0	2,681
Mortgage payable - Bank	140,989	148,957
Total Liabilities	149,509	154,733
NET ASSETS		
Unrestricted	38,205	38,823
Temporarily restricted	1,382	1,450
Permanently restricted	0	0
Total net assets	39,587	40,273
TOTAL LIABILITIES AND NET ASSETS	$ 189,096	$ 195,006

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

Exhibit B

HIS BRANCHES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	Unrestricted	Temporarily Restricted	Total 2006	Total 2005
REVENUES, GAINS AND OTHER SUPPORT				
Donations received	$ 8,381	$ 23,438	$ 31,819	$ 67,676
Program fees - medical workshops	5,226	-	5,226	6,342
Rental income and space-sharing reimbursements	23,714	-	23,714	37,235
Investment income	-	-	-	63
Net assets released from restrictions:				
Restrictions satisfied by payments	23,506	(23,506)	-	-
Total Revenues, gains and other support	60,827	(68)	60,759	111,316
EXPENSES (Exhibit D)				
Program services	35,672	-	35,672	84,550
Supporting services	20,835	-	20,835	66,400
Fund raising expenses	4,938	-	4,938	11,865
Total Expenses	61,445	-	61,445	162,815
CHANGE IN NET ASSETS	(618)	(68)	(686)	(51,499)
Net Assets at Beginning of Year	38,823	1,450	40,273	91,772
NET ASSETS AT END OF YEAR	$ 38,205	$ 1,382	$ 39,587	$ 40,273

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

Exh

HIS BRANCHES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (686)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Amortization	480
Depreciation	8,658
Non-cash donations	0
Gain on sale of securities or assets	0
Changes in operating assets and liabilities:	
Decrease (increase) in receivables	0
Decrease (increase) in prepaid expenses	(1,006)
Increase (decrease) in accounts payable	6,029
Increase (decrease) in accrued expenses	(604)
Increase (decrease) in advances from physicians	(2,681)
Net cash provided by operating activities	10,190
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital acquisitions	0
Escrow funds used for asset acquisition	0
Net cash used by investing activities	0
CASH FLOWS FROM FINANCING ACTIVITIES	
Mortgage principal payments	(7,968)
Net cash used by financing activities	(7,968)
DECREASE IN CASH AND CASH EQUIVALENTS	2,222
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	6,570
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 8,792

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

hibit C

2005
$ (51,499)
489
9,753
(700)
0
50,100
941
(2,169)
183
2,681
9,779
(44,642)
43,813
(829)
(7,416)
(7,416)
1,534
5,036
$ 6,570

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

Exhibit D

HIS BRANCHES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	Medical and Community Services Local	Medical and Community Services Overseas	General and Administrative	Fund Raising	Total 2006	Total 2005
EXPENSES						
Grants and program expenses	$ 21,991	$ 8,516	$ -	$ -	$ 30,507	$ 55,286
Salaries and payroll taxes	148,130	62	1,926	621	150,739	193,653
Travel and meetings	1,717	28	869	280	2,894	5,519
Insurance and employee benefits	21,113	19	625	186	21,943	23,582
Licenses and permits	218	-	11	2	231	1,880
Office supplies and expense	19,604	37	2,573	371	22,585	19,314
Dues, fees and subscriptions	210	5	335	49	599	695
Telephone and communication	7,073	8	291	166	7,538	7,776
Website and publicity	1,193	23	803	459	2,478	746
Interest	5,998	111	3,887	1,111	11,107	10,827
Space and occupancy expense	16,547	78	2,728	779	20,132	27,708
Amortization	259	5	168	48	480	489
Depreciation	4,675	87	3,030	866	8,658	9,753
Legal and accounting	-	-	3,554	-	3,554	4,177
Filing fees	-	-	35	-	35	495
Total	248,728	8,979	20,835	4,938	283,480	361,900
Less, overhead reimbursements	(222,035)	-	-	-	(222,035)	(199,085)
NET EXPENSES - EXHIBIT B	$ 26,693	$ 8,979	$ 20,835	$ 4,938	$ 61,445	$ 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 YEARS ENDED JUNE 30, 2006 AND 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 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 (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. Amortization expense for the years ended June 30, 2006 and 2005 amounted to $489 and $480, respectively.

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 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 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, 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 YEARS ENDED JUNE 30, 2006 AND 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 - Local Activity

During the year ended June 30, 2005, the organization's facility ceased to be rented to other organizations, and a new activity was established under the oversight of His Branches. Embracing Options is a pregnancy care center offering free informational and counseling services to women in crisis pregnancy situations, primarily in the Sector 4 area of Rochester. The expenses for this activity are included with the other local ministries under Medical and Community Services on the Statement of Functional Expenses. Of the Restricted Net Assets on the Statement of Financial Condition, $1000 was received as a donation towards the future purchase of an ultrasound machine for this ministry.

Note D - Property and Equipment

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

	2006	2005
Building	$ 40,000	$ 40,000
Improvements	242,619	242,619
Equipment	25,794	25,794
	308,413	308,413
Less: accumulated depreciation	157,156	148,498
	151,257	159,915
Add: Land	21,636	21,636
Net property and equipment	$172,893	$181,551

Depreciation expense for the years ended June 30, 2006 and 2005 amounted to $8,658 and $9,759, respectively.

Note E – Accrued Payroll and Payroll Taxes

Accrued payroll of $120 at June 30, 2006 represents the current liability for employees' cumulative unused vacation time, according to the Organization's policy.

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 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 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, 2006	$ 140,989
Less: amount due within one year	8,700
Amount due after one year	$ 132,789

Annual maturities of long-term debt at June 30, 2006 are as follows:

Year ended June 30	Amount
2007	8,700
2008	9,380
2009	10,100
2010	10,825
2011 and thereafter	101,984
Total	$ 140,989

Note G - Commitments

His Branches, Inc. 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 contains $382 designated by donors for this ministry.

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.

Note G, continued

In addition, His Branches, Inc. has a collaborative arrangement with the Department of Social Work and the Institute for Social Entrepreneurship of Roberts Wesleyan College. This organization is conducting community needs assessment studies and His Branches works with graduate student interns in this regard. Three of its staff also serve as members of the board of His Branches.

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, 2006. 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, 2006 for the next five years are as follows:

Year ending June 30	Amount
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 was subsequently applied to expenses in accordance with the agreement with the physicians. No material amount was due to or from the practitioners at June 30, 2006.

HIS BRANCHES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

Note J – 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 serves as its president.

Note K – 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 L – Contingencies

The position of executive director, since it had been funded with a specific grant, was suspended as of June 30, 2005. Additionally, the organization has applied for, and has been granted, status as an Article 28 Diagnostic and Treatment Center by the State of New York. When the transition to clinic status is accomplished, the structure of the organization will change significantly: patient fees will become revenue of His Branches, the physicians will become employees of the organization, and the clinic will be eligible for increased insurance reimbursements. Therefore, management believes that functioning as a clinic will enable a more viable financial operation, and it expects to convert to the new status in the coming year.