HIS BRANCHES, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2008 AND 2007

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, 2008 and 2007, 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, 2008 and 2007 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

May 8, 2009

Exhibit A

HIS BRANCHES, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 16,573	$ 14,019
Patient revenue receivable, net of allowance for doubtful accounts of $58,000 for 2008 and $9,000 for 2007	98,779	63,542
Grants and pledges receivable	29,500	-
Reimbursements receivable from providers	148	2,864
Prepaid expenses	2,631	2,164
Total current assets	147,631	82,589
Property and equipment		
Land, building and equipment	404,110	336,315
Accumulated depreciation	(176,542)	(165,474)
Net property and equipment	227,568	170,841
Mortgage acquisition costs, net of accumulated amortization	6,328	6,955
TOTAL ASSETS	$ 381,527	$ 260,385
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 12,736	$ 6,763
Credit card liabilities	12,615	12,882
Note payable to bank	66,722	-
Accrued salaries	2,511	7,717
Accrued interest	890	3,182
Notes payable to providers, including interest in arrears	72,000	64,466
Mortgage payable - Bank	123,251	132,425
Total Liabilities	290,725	227,435
NET ASSETS		
Unrestricted	88,374	31,016
Temporarily restricted	2,428	1,934
Permanently restricted	-	-
Total net assets	90,802	32,950
TOTAL LIABILITIES AND NET ASSETS	$ 381,527	$ 260,385

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, 2008 AND 2007

	Unrestricted	Temporarily Restricted	Total 2008	Total 2007
REVENUES, GAINS AND OTHER SUPPORT				
Donations and grants received	$ 97,756	$ 7,115	$ 104,871	$ 47,403
Donated materials and services	45,000	-	45,000	-
Program fees - patient revenue and medical workshops	538,323	-	538,323	329,267
Rental income and space-sharing reimbursements	1,400	-	1,400	25,865
Net assets released from restrictions: Restrictions satisfied by payments	6,621	(6,621)	-	-
Total Revenues, gains and other support	689,100	494	689,594	402,535
EXPENSES (Exhibit D)				
Program services	522,567	-	522,567	336,890
Supporting services	98,035	-	98,035	63,638
Fund raising expenses	11,140	-	11,140	8,644
Total Expenses	631,742	-	631,742	409,172
CHANGE IN NET ASSETS	57,358	494	57,852	(6,637)
Net Assets at Beginning of Year	31,016	1,934	32,950	39,587
NET ASSETS AT END OF YEAR	$ 88,374	$ 2,428	$ 90,802	$ 32,950

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, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 57,852	$ (6,637)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization	628	490
Depreciation	11,067	8,329
Non-cash donations	(45,000)	-
Increase in allowance for doubtful accounts	49,000	9,000
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	(111,022)	(74,406)
Decrease (increase) in prepaid expenses	(467)	(2,208)
Increase (decrease) in accounts payable	5,706	12,084
Increase (decrease) in accrued expenses	36	74,405
Net cash provided by operating activities	(32,200)	21,057
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital acquisitions	(22,794)	(6,266)
Net cash used by investing activities	(22,794)	(6,266)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	66,722	-
Mortgage principal payments	(9,174)	(8,564)
Net cash used by financing activities	57,548	(8,564)
INCREASE IN CASH AND CASH EQUIVALENTS	2,554	6,227
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	14,019	8,792
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 16,573	$ 15,019

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, 2008 AND 2007

	Medical and Community Services Local	Medical and Community Services Overseas	General and Administrative	Fund Raising	Total 2008	Total 2007
EXPENSES						
Grants and program expenses	$ 36,182	$ 6,621	$ -	$ -	$ 42,803	$ 45,147
Salaries, provider fees and payroll	326,324	3,751	37,509	7,502	375,086	300,007
Travel and meetings	5,069	41	413	83	5,606	2,398
Insurance and employee benefits	30,996	368	4,613	734	36,711	37,939
Uncollectibles and bad debts	40,000	-	9,000	-	49,000	9,000
Licenses and permits	1,485	17	171	34	1,707	1,432
Office supplies and expense	11,982	323	19,429	647	32,381	22,539
Dues, fees and subscriptions	1,549	18	178	36	1,781	2,215
Telephone and communication	7,454	86	857	171	8,568	8,148
Website and publicity	1,353	31	1,076	615	3,075	1,352
Interest	11,921	206	7,993	410	20,530	13,613
Space and occupancy expense	26,980	337	5,733	674	33,724	27,974
Amortization	502	6	107	13	628	490
Depreciation	8,854	111	1,881	221	11,067	8,329
Legal and accounting	-	-	9,025	-	9,025	4,181
Filing fees	-	-	50	-	50	35
Total	510,651	11,916	98,035	11,140	631,742	484,799
Less, overhead reimbursements						(75,627)
NET EXPENSES - EXHIBIT B	$ 510,651	$ 11,916	$ 98,035	$ 11,140	$ 631,742	$ 409,172

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

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 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 fifteen year term of the refinanced mortgage and the related line of credit.

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 and L.

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.

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, 2008, 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 on North Goodman Street in Rochester. The expenses for this activity are included with the other local ministries under Medical and Community Services on the Statement of Functional Expenses.

The social work outreach program of Roberts Wesleyan University discontinued its affiliation with His Branches, and no longer used space in the building in previous years.

In addition, Rochester Youth Outreach, an after-school youth service, used part of the facility one afternoon a week, rent-free. This organization was sponsored by His Branches in collaboration with Rochester Youth Year, Roberts Wesleyan College and Elim Bible Institute.

See also Notes L and M.

Note D - Accounts Receivable

Prior to November 2006, the medical 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.

The amounts shown as patient revenue receivable at June 30, 2008 and 2007 are the total outstanding patient fees on those dates. The balance is shown net of an allowance for doubtful accounts, which based on the prior experience of the practitioners.

Note E - Reimbursements from Providers

Reimbursements receivable from the providers represents the short-term balances due from the various collaborative ministries for reimbursements of expenses paid by His Branches for their convenience.

Note F - Property and Equipment

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

	2008	2007
Building	$ 40,000	$ 40,000
Improvements, Arnett Blvd location	248,885	248,885
Improvements, North Goodman location Including $45,000 donated services and materials	56,295	0
Equipment and long-term software	37,294	25,794
	382,474	314,679
Less: accumulated depreciation and amortization	176,542	165,474
	205,931	149,205
Add: Land	21,636	21,636
Net property and equipment	$227,568	$170,841

Depreciation expense for the years ended June 30, 2008 and 2007 amounted to $11,067 and $8,329, respectively.

Note G – 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 its bank, stipulating a maximum borrowing potential of $100,000. Amortization expense for the years ended June 30, 2008 and 2007 amounted to $628 and $490, respectively.

Note H – Note Payable to bank

During the year ended June 30, 2008, the Organization drew down funds totaling $66,722 on its $100,000 line of credit with its bank. This obligation carries interest at the annual rate of 7%.

Note I – Accrued Salaries

Accrued salaries of $2,511 at June 30, 2008 and $8,717 at June 30, 2007, represent the current liability for employees' cumulative unused vacation time, according to the Organization's policy.

Note J - Accrued Interest and Notes Payable

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. See Accounts Receivable, Note D.

Under the terms of the notes payable, interest of 8.25% per annum began to accrue on these obligations on January 1, 2007, and the 48 monthly payments commenced after the balance sheet date. Therefore the interest in arrears has been added to the principal balances.

Note J - Notes Payable, continued

These notes payable consisted of the following at June 30, 2008	$ 72,000
Less: amount due within one year	15,845
Amount due after one year	$ 56,155

Annual maturities of long-term debt at June 30, 2008 are as follows:

Year ended June 30	Amount
2009	15,845
2010	17,203
2011	18,677
2012	20,275
Total	$ 72,000

Note K - 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 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, 2008	$ 123,251
Less: amount due within one year	10,000
Amount due after one year	$ 113,251

Annual maturities of long-term debt at June 30, 2008 are as follows:

Year ended June 30	Amount
2009	10,000
2010	10,825
2011	11,900
2012	13,200
2013 and thereafter	77,326
Total	$ 123,251

Accrued interest at June 30, 2008 consists of $156 on the line of credit note payable and $734 on the mortgage obligation.

Note L – 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, but has opened a second center on North Goodman Street.

In addition, Rochester Youth Outreach, an after-school youth service, used part of the facility two days a week, rent-free. This organization was sponsored by His Branches in collaboration with Rochester Youth Year and the University of Rochester.

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.

Prior to November 2006, the practitioners collected their own patient revenues and reimbursed 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 had been $2,000 monthly for four months of the period presented, and an inter-fund charge of the same amount was made for the remaining eight months, for consistency. This rate is considered to be equivalent to a market rate. See also Note I.

Therefore, no material third-party space sharing reimbursements are to be received as of June 30, 2008.

Note M – Related Party
The medical and counseling services described in Note C 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 served as its president until June 30, 2006.

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 applied for, and expects to be 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 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. Management expects to convert to the new status in the coming year.

Note O – Commitments and Contingencies, continued
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 $2,428 designated by donors for this ministry.

Note P – Prior Year Summarized Comparative Information
The financial statements include prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statement for the year ended June 20, 2007, from which the summarized information was derived.