HIS BRANCHES, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2010 AND 2009

HIS BRANCHES, INC.

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Independent Auditors' 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, 2010 and 2009, 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, 2010 and 2009 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

February 8, 2011

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, 2010 AND 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 35,194	$ 27,516
Patient revenue receivable, net of allowance for doubtful accounts of $176,425 for 2010 and $96,530 for 2009	126,662	76,500
Grants and pledges receivable	2,750	-
Accounts receivable - trade	150	10,186
Prepaid expenses	3,067	950
Total current assets	167,823	115,152
Property and equipment		
Land, building and equipment	407,320	404,110
Accumulated depreciation	(203,263)	(189,897)
Net property and equipment	204,057	214,213
Mortgage acquisition costs, net of accumulated amortization of $4,330 for 2010 and $3,703 for 2009	5,075	5,701
TOTAL ASSETS	$ 376,955	$ 335,066
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 42,449	$ 33,534
Credit card liabilities	16,530	2,106
Note payable to bank	85,878	80,878
Accrued salaries	14,010	12,451
Accrued interest	848	675
Security deposit from organization sharing space	600	0
Notes payable to providers, including interest in arrears	79,078	73,463
Mortgage payable - Bank	102,623	113,249
Total Liabilities	342,016	316,356
NET ASSETS		
Unrestricted	34,749	18,081
Temporarily restricted	190	629
Permanently restricted	-	-
Total net assets	34,939	18,710
TOTAL LIABILITIES AND NET ASSETS	$ 376,955	$ 335,066

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, 2010 AND 2009

	Unrestricted	Temporarily Restricted	Total 2010	Total 2009
REVENUES, GAINS AND OTHER SUPPORT				
Donations and grants received	$ 115,018	$ 4,561	$ 119,579	$ 61,660
Donated materials and services	1,000	-	1,000	25
Program fees - patient revenue and medical workshops	622,435	-	622,435	458,969
Rental income and space-sharing reimbursements	1,200	-	1,200	3,010
Loss on disposition of assets	(2,453)		(2,453)	
Net assets released from restrictions:				
Restrictions satisfied by payments	5,000	(5,000)	-	-
Total Revenues, gains and other support	742,200	(439)	741,761	523,664
EXPENSES (Exhibit D)				
Program services	594,727	-	594,727	488,155
Supporting services	118,642	-	118,642	96,783
Fund raising expenses	12,163	-	12,163	10,818
Total Expenses	725,532	-	725,532	595,756
CHANGE IN NET ASSETS	16,668	(439)	16,229	(72,092)
Net Assets at Beginning of Year	18,081	629	18,710	90,802
NET ASSETS AT END OF YEAR	$ 34,749	$ 190	$ 34,939	$ 18,710

Exhibit C

HIS BRANCHES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 16,229	$ (72,092)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization	626	627
Depreciation	13,609	13,355
Increase in allowance for doubtful accounts	79,895	38,530
Interest accrued on notes to providers	5,615	1,463
Loss on disposition of asset	2,453	
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	(122,771)	3,211
Decrease (increase) in prepaid expenses	(2,117)	1,681
Increase (decrease) in accounts payable	23,339	10,289
Increase (decrease) in accrued expenses	2,332	9,725
Net cash provided by operating activities	19,210	6,789
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital acquisitions	(5,906)	0
Net cash used by investing activities	(5,906)	0
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Line of Credit	5,000	14,156
Mortgage principal payments	(10,626)	(10,002)
Net cash used by financing activities	(5,626)	4,154
INCREASE IN CASH AND CASH EQUIVALENTS	7,678	10,943
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	27,516	16,573
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 35,194	$ 27,516

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, 2010 AND 2009

	Medical and Community Services		General and	Fund	Total
	Local	Overseas	Administrative	Raising	2010
EXPENSES					
Grants and program expenses	$ 24,894	$ 5,000	$ -	$ -	$ 29,894
Combined educational and fund raising event	6,695	-	-	10042	16,737
Salaries, provider fees and payroll	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

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

Exhibit D
(Continued)

HIS BRANCHES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	Medical and Community Services		General and	Fund	Total
	Local	Overseas	Administrative	Raising	2009
EXPENSES					
Grants and program expenses	$ 30,399	$ 7,250	$ -	$ -	$ 37,649
Salaries, provider fees and payroll	301,754	3,468	34,684	6,937	346,843
Travel and meetings	3,260	37	375	75	3,747
Employee benefits	18,214	209	2,094	419	20,936
General business insurance	13,917	174	2,957	348	17,396
Uncollectibles and bad debts	38,530	-	-	-	38,530
Licenses and permits	522	6	60	12	600
Postage, printing and reproduction	2,001	54	3,245	108	5,408
Office supplies and expense	14,223	385	23,065	768	38,441
Dues, fees and subscriptions	1,359	16	156	31	1,562
Telephone and communication	6,410	74	737	147	7,368
Website and publicity	1,707	39	1,358	776	3,880
Interest	10,647	187	7,496	374	18,704
Space and occupancy expense	21,716	271	4,615	543	27,145
Amortization	502	6	107	13	628
Depreciation	10,684	134	2,270	267	13,355
Legal and accounting	-	-	13,489	-	13,489
Filing fees	-	-	75	-	75
NET EXPENSES - EXHIBIT B	$ 475,845	$ 12,310	$ 96,783	$ 10,818	$ 595,756

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, 2010 AND 2009

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.

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

Subsequent Events
Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through January 21, 2011 (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.

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, 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. During the year, a second center on North Goodman Street in Rochester ended its affiliation with Embracing Options. The expenses for this activity before the end of the affiliation are included with the other local ministries under Medical and Community Services on the Statement of Functional Expense.

During the year, another center was opened in Webster, New York under the sponsorship of a church which provides space and underwrites related personnel expenses.

In addition, a local church began using part of the facility on May 1, 2010, under a one-year lease specifying monthly rent payments of $600. A security deposit of $600 was also received from the tenant. The lease is renewable for two additional years, and calls for the tenant to pay its own utilities and to maintain insurance on its property.

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.

Note E - Property and Equipment

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

	2010	2009
Building	$ 40,000	$ 40,000
Improvements, Arnett Blvd location	252,095	248,885
Improvements, North Goodman location Including $45,000 donated services and materials	56,295	56,295
Equipment and long-term software	37,294	37,294
	385,684	382,474
Less: accumulated depreciation and amortization	203,263	189,897
	182,421	192,577
Add: Land	21,636	21,636
Net property and equipment	$204,057	$214,213

Depreciation expense for the years ended June 30, 2010 and 2009 amounted to $13,609 and $13,355, 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, 2010 and 2009 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; and the previous year drew down funds of $14,156.

As of June 30, 2010, the outstanding liability on the line of credit was $85,878. This obligation carries interest at the annual rate of 5.25%.

Note H – Accrued Salaries

Accrued salaries of $14,010 at June 30, 2010 and $12,451 at June 30, 2009, include the liabilities for employees' cumulative unused vacation time, $4,536 and $4,862 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.

Note I, continued

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: $5,615 for the year ended June 30, 2010 and $1,463 for the year ended June 30, 2009; 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, 2009	8,997
Combined balance due as of June 30, 2009	73,463
Interest accrued and added to principal, year ended June 30, 2010	5,615
Combined balance due as of June 30, 2010	$ 79,078

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.

Mortgage payable consisted of the following at June 30, 2010	$ 102,623
Less: amount due within one year	11,550
Amount due after one year	$ 91,073

Annual maturities of long-term debt at June 30, 2010 are as follows:

Year ended June 30	Amount
2011	11,550
2012	12,400
2013	13,320
2014	14,300
2015 and thereafter	51,053
Total	$ 102,623

Accrued interest at June 30, 2010 consists of $236 on the line of credit note payable and $612 on the mortgage obligation.

Note J, continued
At June 30, 2009, accrued interest consisted of $0 on the line of credit and $675 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 uses donated Church space in Webster, New York.

In addition, a local church began using part of the facility in April, 2010, under a one-year lease specifying monthly rent payments of $600, with the first month's rent due in May. A security deposit of $600 was also received from the tenant.

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.

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 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.

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 $190 and $629 for the years ended June 30, 2010 and 2009, designated by donors for this ministry.