

**HIS BRANCHES, INC
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2013 AND 2012**

HIS BRANCHES, INC

TABLE OF CONTENTS

Independent Accountant's Report

Exhibit "A"	Statements of Financial Position June 30, 2013 and 2012
Exhibit "B"	Statement of Activities for the Years Ended June 30, 2013 and 2012
Exhibit "C"	Statement of Cash Flows for the Years Ended June 30, 2013 and 2012
Exhibit "D"	Statement of Functional Expenses for the Years Ended June 30, 2013 and 2012

Notes to Financial Statements

INDEPENDENT AUDITOR'S REPORT

Suite 400 • 401 Exchange St.
Geneva, NY 14456

To the Board of Directors of
His Branches, Inc.

315-789-3310
Fax 315-789-5437

We have audited the accompanying financial statements of His Branches, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

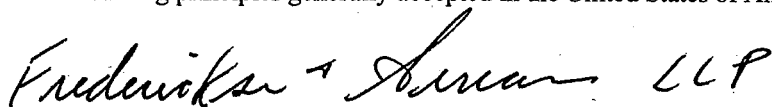
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.



Fredericksen and Sirianni, LLP
Certified Public Accountants

Rochester, New York
December 4, 2013

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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, 2013 AND 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 65,371	\$ 45,452
Patient revenue receivable, net of allowance for doubtful accounts of \$310,867 for 2013 and \$287,071 for 2012	132,114	145,975
Grants and pledges receivable	16,125	12,015
Prepaid expenses	6,782	5,002
	<hr/>	<hr/>
Total current assets	220,392	208,444
<u>Property and equipment</u>		
Land, building and equipment	436,319	410,965
Accumulated depreciation	(244,032)	(223,936)
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Net property and equipment	192,287	187,029
Mortgage acquisition costs, net of accumulated amortization of \$4,957 for 2013 and \$4,330 for 2012	3,203	3,821
	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	<u>\$ 415,882</u>	<u>\$ 399,294</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 7,179	\$ 10,226
Credit card liabilities	15,948	19,096
Note payable to bank	82,104	85,654
Accrued salaries	24,212	20,364
Accrued interest	610	620
Security deposit from organization sharing space	0	70
Notes payable to providers, including interest in arrears	100,310	92,665
Mortgage payable - Bank	65,719	78,933
	<hr/>	<hr/>
Total Liabilities	296,082	307,628
<u>NET ASSETS</u>		
Unrestricted	119,350	90,541
Temporarily restricted	450	1,125
Permanently restricted	-	-
	<hr/>	<hr/>
Total net assets	119,800	91,666
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 415,882</u>	<u>\$ 399,294</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, 2013 AND 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2013</u>	<u>Total 2012</u>
<u>REVENUES, GAINS AND OTHER SUPPORT</u>				
Donations and grants received	\$ 154,960	\$ 2,325	\$ 157,285	\$ 158,136
Donated services	16,250	-	16,250	34,175
Program fees - patient revenue and medical workshops	646,754	-	646,754	712,892
Less provision for bad debts	(24,281)	-	(24,281)	(92,961)
Rental income and personnel service reimbursements	27,135	-	27,135	25,594
Net assets released from restrictions: Restrictions satisfied by payments	3,000	(3,000)	-	-
	<u>823,818</u>	<u>(675)</u>	<u>823,143</u>	<u>837,836</u>
<u>EXPENSES (Exhibit D)</u>				
Program services	646,252	-	646,252	611,116
Supporting services	134,789	-	134,789	160,508
Fund raising expenses	13,968	-	13,968	9,434
Total Expenses	<u>795,009</u>	<u>-</u>	<u>795,009</u>	<u>781,058</u>
CHANGE IN NET ASSETS	28,809	(675)	28,134	56,778
Net Assets at Beginning of Year	<u>90,541</u>	<u>1,125</u>	<u>91,666</u>	<u>34,888</u>
NET ASSETS AT END OF YEAR	<u>\$ 119,350</u>	<u>\$ 450</u>	<u>\$ 119,800</u>	<u>\$ 91,666</u>

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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 28,134	\$ 56,778
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization	617	627
Depreciation	20,094	12,802
Increase in allowance for doubtful accounts	23,796	92,961
Interest accrued on notes to providers	7,645	7,062
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	(14,045)	(109,730)
Decrease (increase) in prepaid expenses	(1,780)	(3,597)
Increase (decrease) in accounts payable	(6,195)	(10,431)
Increase (decrease) in accrued expenses	3,768	10,822
	<u>62,034</u>	<u>57,294</u>
Net cash provided by operating activities		
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Capital acquisitions	<u>(25,351)</u>	<u>(28,577)</u>
Net cash used by investing activities	<u>(25,351)</u>	<u>(28,577)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Payments on Line of Credit	(3,550)	-
Mortgage principal payments	<u>(13,214)</u>	<u>(12,262)</u>
Net cash used by financing activities	<u>(16,764)</u>	<u>(12,262)</u>
<u>INCREASE IN CASH AND CASH EQUIVALENTS</u>	19,919	16,455
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>45,452</u>	<u>28,997</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 65,371</u>	<u>\$ 45,452</u>
<u>Supplemental Cash Flow Disclosures</u>		
Non-cash donations received and expensed	<u>\$ 16,250</u>	<u>\$ 34,175</u>
Accrued interest expensed	<u>\$ 7,645</u>	<u>\$ 6,639</u>
Interest paid	<u>\$ 12,807</u>	<u>\$ 14,054</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, 2013 AND 2012

	Medical and Community Services		General and Administrative	Fund Raising	Total 2013
	Local	Overseas			
EXPENSES					
Grants and program expenses	\$ 42,449	\$ 3,000	\$ -	\$ -	\$ 45,449
Joint costs of combined education and fund raising event	3,339	-	-	5,008	8,347
Salaries, provider fees and payroll taxes	465,336	1,197	73,770	5,078	545,381
Travel, meetings, education and training	5,609	23	857	23	6,512
Employee benefits	26,176	23	4,309	228	30,736
General business insurance	19,710	110	1,971	110	21,901
Licenses and permits	2,796	-	-	-	2,796
Medical billing net of reimbursements	-	-	8,843	-	8,843
Postage, printing and reproduction	3,480	35	2,957	487	6,959
Office supplies and expense	7,234	73	6,149	1,013	14,469
Retirement plan administrative expense	695	-	114	6	815
Dues, fees and subscriptions	1,277	14	128	-	1,419
Telephone and communication	7,921	49	1,881	50	9,901
Website, publicity and volunteer appreciation	1,450	24	725	217	2,416
Fair value of donated professional services	-	-	16,250	-	16,250
Fund raising expense	-	-	-	1,188	1,188
Interest	17,114	102	2,894	331	20,441
Space and occupancy expense	20,217	126	4,801	126	25,270
Amortization	494	3	117	3	617
Depreciation	16,076	100	3,818	100	20,094
Legal and accounting	-	-	5,130	-	5,130
Filing fees	-	-	75	-	75
NET EXPENSES - EXHIBIT B	\$ 641,373	\$ 4,879	\$ 134,789	\$ 13,968	\$ 795,009

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, 2013 AND 2012

	Medical and Community Services		General and Administrative	Fund Raising	Total 2012
	Local	Overseas			
EXPENSES					
Grants and program expenses	\$ 27,527	\$ 1,900	\$ -	\$ -	\$ 29,427
Joint costs of combined education and fund raising event	2,963	-	-	4444	7,407
Salaries, provider fees and payroll taxes	452,935	-	54,071	2,089	509,095
Travel, meetings, education and training	5,541	29	1,105	29	6,704
Employee benefits	37,404	-	5,804	224	43,432
General business insurance	20,441	256	4,727	128	25,552
Uncollectibles and bad debts	-	-	8,665	-	8,665
Licenses and permits	1,947	-	-	-	1,947
Medical billing net of reimbursements and including donated services	-	-	44,877	-	44,877
Postage, printing and reproduction	3,172	32	2,697	444	6,345
Office supplies and expense	8,901	89	7,566	1,247	17,803
Retirement plan administrative expense	868	-	135	5	1,008
Dues, fees and subscriptions	476	3	113	3	595
Telephone and communication	7,892	49	1,874	49	9,864
Website and publicity	739	12	369	111	1,231
Interest	6,157	103	13,969	464	20,693
Space and occupancy expense	20,739	130	4,925	130	25,924
Amortization	502	3	119	3	627
Depreciation	10,242	64	2,432	64	12,802
Legal and accounting	-	-	6,885	-	6,885
Filing fees	-	-	175	-	175
NET EXPENSES - EXHIBIT B	\$ 608,446	\$ 2,670	\$ 160,508	\$ 9,434	\$ 781,058

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, 2013 AND 2012

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 ASC 958, *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.

Revenue Recognition

The largest portion of the Organization's revenue is from fees for patient services. These revenues are recognized when services are provided, without regard to whether the fees are collectible. Therefore, the provision for bad debts related to these billings has been presented as a direct deduction in the revenue section of the Statement of Activities, in accordance with the accounting standards update issued by the FASB ASC 958.

Contributions

The Organization has adopted FASB ACS 958-605, *Accounting for Contributions Received and Contributions Made*. Under ASC 958-605, 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.

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, *Accounting for Contributions Received and Contributions Made*.

The accompanying accountant's report is an integral part of these financial statements.

HIS BRANCHES, INC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note A - Summary of Significant Accounting Policies (continued)

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. The Organization had no cash and cash equivalent balances in excess of federal insured amounts at June 30, 2013 and 2012.

Patient Revenue Receivable and Allowance for Doubtful Accounts

Patient revenue receivable includes amounts due from third parties (insurance companies) as well as co-insurance and self-pay receivables. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

Management regularly reviews data about these sources in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization reduces the amounts billed to the contractually due amounts, and then further analyzes and provides an allowance for doubtful accounts and a provision for bad debts, if necessary.

For receivables associated with self-pay patients (those without insurance and those with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard or discounted billings and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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.

The accompanying accountant's report is an integral part of these financial statements.

HIS BRANCHES, INC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note A - Summary of Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through December 4, 2013 (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.

FASB ASC 740 *Accounting for Income Taxes* requires Organizations to determine whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. For tax-exempt entities, their tax exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize tax-exempt status. The Organization believes it has no uncertain tax positions and has not recognized any benefits from uncertain tax positions that will significantly increase or decrease in twelve months after the balance sheet date. The Organization has not been subject to federal or state income tax examinations by tax authorities and its open tax periods are 2012, 2011 and 2010.

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 were carried out by employees as well as professionals and groups under contract with the Organization through December 31, 2011; thereafter the providers became employees.

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, including licensed diagnostic and treatment centers 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.

The accompanying accountant's report is an integral part of these financial statements.

HIS BRANCHES, INC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note C - Local Activity

During the year ended June 30, 2013, 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, Inc, operating as His Branches Health Services, also provides medical and billing services to Joy Family Medicine (JFM), which is a separate and independent not-for-profit medical center on North Goodman Street in the city of Rochester. These services are reimbursed by JFM at cost and the activities of that medical center are not included in these financial statements.

Discussions and plans for the merger of JFM into His Branches were underway at the balance sheet date, and are expected to be accomplished by January 1, 2014.

During the year ended June 30, 2012, Rochester Youth Outreach, a ministry to neighborhood youth, became part of His Branches. The revenue and expense of this activity is not material, but the revenue is included under Unrestricted Donations on the Statement of Activities and the expense is included in the Local column of the Statement of Functional Expenses.

The Arnett Block Association has become an activity of His Branches, no longer just in a collaborative relationship. Likewise, its revenue is included under Unrestricted Donations on the Statement of Activities and the expense is included in the Local column of the Statement of Functional Expenses. See also Note K.

Note D - Receivables

Grants and pledges receivable at June 30, 2013 and 2012 were \$16,125 and \$12,015 respectively. These receivables have been reduced to reflect the amounts expected to be collected.

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. Amounts due from third parties (insurance companies) are first reduced from the amounts billed to the contractually due amounts, and then an allowance for doubtful accounts is provided. The allowance for doubtful accounts also covers receivables associated with self-pay patients (those without insurance and those with deductible and copayment balances due for which third-party coverage exists for part of the bill). This provision for bad debts decreased from about 66% of receivables at June 30, 2012 to about 56% at June 30, 2013.

The Organization has not changed its charity care policy or its sliding scale of fees during the fiscal years presented. See also Note A, Patient Revenue Receivable and Allowance for Doubtful Accounts.

HIS BRANCHES, INC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note E - Property and Equipment

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

	<u>2013</u>	<u>2012</u>
Building	\$ 40,000	\$ 40,000
Improvements, Arnett Blvd	283,947	283,947
Equipment and long-term software	<u>90,736</u>	<u>65,382</u>
	414,683	389,329
Less: accumulated depreciation and amortization	<u>244,032</u>	<u>223,936</u>
	170,651	165,393
Add: Land	<u>21,636</u>	<u>21,636</u>
Net property and equipment	<u>\$192,287</u>	<u>\$187,029</u>

Depreciation expense for the years ended June 30, 2013 and 2012 amounted to \$20,094 and \$12,802, 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, 2013 and 2012 amounted to \$617 and \$627, respectively.

Note G – Note Payable to bank

During the years ended June 30, 2013 and 2012, the Organization did not draw down funds on its \$100,000 line of credit with its bank.

As of June 30, 2013 and 2012, the outstanding liability on the line of credit was \$82,104 and \$85,654, respectively. This obligation carries interest at the annual rate of 5.25%, and monthly interest payments have been paid and accrued for the year ended June 30, 2013.

The mortgage and line of credit are in process of consolidation and refinancing as of the balance sheet date. The process was completed before the issuance date of these financial statements. See also Notes A and N, Subsequent Events.

Note H – Accrued Salaries

Accrued salaries of \$24,212 at June 30, 2013 and \$20,364 at June 30, 2012, include the liabilities for employees' cumulative unused vacation time, \$15,845 and \$11,470 respectively, accrued according to the Organization's policy.

HIS BRANCHES, INC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note I - Accrued Interest and Notes Payable to Providers

Prior to November 2006, three 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, all patient revenues are assigned to His Branches and the practitioners were paid as independent contractors until December 31, 2011, during which His Branches became an Article 28 Diagnostic and Treatment Center under the laws of New York. The continuing providers then became employees of the organization.

Therefore, in November 2006, promissory notes were issued to the three formerly independent 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: \$7,645 for the year ended June 30, 2013 and \$7,062 for the year ended June 30, 2012; 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, 2012	<u>28,199</u>
Combined balance due as of June 30, 2012	92,665
Interest accrued and added to principal, year ended June 30, 2013	<u>7,645</u>
Combined balance due as of June 30, 2013	<u>\$ 100,310</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 2002 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.

The mortgage and line of credit are in process of consolidation and refinancing at the balance sheet date. The process was completed before the issuance date of these financial statements. See also Notes A and N, Subsequent Events.

HIS BRANCHES, INC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note J - Mortgage Payable, continued

Mortgage payable consisted of the following at June 30, 2013	\$ 65,719
Less: amount due within one year	<u>14,000</u>
Amount due after one year	<u>\$ 51,719</u>

Annual maturities of long-term debt at June 30, 2013 are as follows:

<u>Year ended June 30</u>	<u>Amount</u>
2014	14,000
2015	14,800
2016	15,900
2017	17,000
2018	<u>4,019</u>
Total	<u>\$ 65,719</u>

Accrued interest at June 30, 2013 consists of \$219 on the line of credit note payable and \$391 on the mortgage obligation.

At June 30, 2012, accrued interest consisted of \$150 on the line of credit and \$470 on the mortgage obligation.

See also Note N – Subsequent Events.

Note K – Lease and Space-sharing Arrangements

In furtherance of the stated purpose of His Branches, Inc, the Organization from time to time provides space, administrative and synergistic services to other organizations, which provide community services in accordance with the purpose stated in Note B. However, all such organizations have now become programs of His Branches; and their financial activities are now included under the Local column on the Statement of Functional Expenses, with revenue attributable to them included under Donations and grants received, on the Statement of Activities.

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. The donated portion of the providers' services does not meet the criteria for reporting as revenue an expense on the Statement of Activities.

HIS BRANCHES, INC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Note M – Commitments and Contingencies

The organization has been granted status as an Article 28 Diagnostic and Treatment Center by the State of New York. Because of the transition to clinic status, the structure of the organization has changed significantly: patient fees are now reported as revenue of His Branches and the providers are now employees of the organization.

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 \$450 and \$1,125 for the years ended June 30, 2013 and 2012, designated by donors for this ministry.

His Branches, operating as His Branches Health Services, also provides medical and billing services to Joy Family Medicine (JFM), a separate and independent medical practice on North Goodman Street in the city of Rochester. This entity is expected to be brought under His Branches, Inc oversight as of January 1, 2014; the two to be known collectively as His Branches Health Services. During the years presented, services to Joy Family Medicine have been reimbursed at cost and the activities of that medical practice are not included in these financial statements. See also Note N, Subsequent Events.

The Arnett Block Association has had a collaborative relationship with His Branches, but its activities had not been included in these financial statements until the year ended June 30, 2012. Financial activities of this program were not material in current or in prior years.

The Medical Community Christian Fellowship also has a collaborative arrangement with His Branches, but its activities are not included in these financial statements.

Note N - Subsequent Events

Discussions and plans for the merger of JFM into His Branches were underway at the balance sheet date, and are expected to be accomplished by January 1, 2014. See also Note C and M.

The mortgage and line of credit are in process of consolidation and refinancing as of the balance sheet date. The process was completed before the issuance date of these financial statements. See also Note G.

Note O – Disclosures and Report Modifications Related To Prior Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2012, from which the summarized information was derived.