

CONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

HOUSING WORKS, INC. AND AFFILIATES

For the year ended June 30, 2007, with comparative
information for the year ended June 30, 2006

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Housing Works, Inc. and Affiliates:

We have audited the accompanying consolidated statement of financial position of Housing Works, Inc. and Affiliates (collectively, the "Organization") as of June 30, 2007, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's fiscal 2006 consolidated financial statements and, in our report dated October 6, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Housing Works, Inc. and Affiliates as of June 30, 2007, and the consolidated changes in their net assets and their consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the Organization's basic consolidated financial statements taken as a whole. The supplementary information, included in the accompanying consolidating schedule of financial position as of June 30, 2007 and consolidating schedule of revenues and expenses for the year ended June 30, 2007, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic consolidated financial statements taken as a whole.

Grant Thornton LLP

New York, New York
December 3, 2007

Housing Works, Inc. and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash	\$ 342,065	\$ 186,034
Medicaid receivables, net of allowance of \$1,223,284 and \$634,790 for 2007 and 2006, respectively	2,069,379	1,855,890
Grants and contract services receivables (Note E)	916,649	1,277,182
Contributions receivable (Note E)	174,500	59,949
Thrift shop and bookstore inventory	2,578,138	1,998,234
Prepaid expenses and other assets	<u>717,679</u>	<u>351,991</u>
Total current assets	<u>6,798,410</u>	<u>5,729,280</u>
Long-term assets:		
Restricted cash - debt service and contingency reserve funds (Note E)	375,982	367,710
Investments (Note D)	1,466,010	1,663,562
Security deposits and other assets	1,794,252	1,627,150
Investment in related entities (Note D)	89,612	173,781
Property and equipment, net (Notes C and E)	<u>24,250,004</u>	<u>21,817,053</u>
Total long-term assets	<u>27,975,860</u>	<u>25,649,256</u>
Total assets	<u>\$ 34,774,270</u>	<u>\$ 31,378,536</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,868,519	\$ 3,813,503
Current maturities of loans payable (Note E)	<u>3,242,105</u>	<u>2,735,872</u>
Total current liabilities	<u>8,110,624</u>	<u>6,549,375</u>
Long-term liabilities:		
Loans payable (Note E)	12,725,885	10,746,787
Deferred rent expense	246,127	118,957
Other liabilities	<u>3,100</u>	<u>3,100</u>
Total long-term liabilities	<u>12,975,112</u>	<u>10,868,844</u>
Total liabilities	<u>21,085,736</u>	<u>17,418,219</u>
Commitments and contingencies (Note F)		
Net assets:		
Unrestricted:		
Board Designated (Note B)	4,800,000	4,800,000
Investment in plant	8,282,014	8,334,394
Available for operations	<u>(482,224)</u>	<u>(146,094)</u>
Total unrestricted	<u>12,599,790</u>	<u>12,988,300</u>
Temporarily restricted	483,333	479,167
Permanently restricted	<u>605,411</u>	<u>492,850</u>
Total net assets	<u>13,688,534</u>	<u>13,960,317</u>
Total liabilities and net assets	<u>\$ 34,774,270</u>	<u>\$ 31,378,536</u>

The accompanying notes are an integral part of these consolidated statements.

Housing Works, Inc. and Affiliates

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2007, with comparative totals for the year ended June 30, 2006

	2007			2006 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating activities:				
Operating revenues and other support:				
Grants and contract services	\$ 5,167,874	\$ -	\$ -	\$ 7,134,861
Bookstore sales	1,858,652	-	-	1,107,371
Thrift shops sales	10,098,946	-	-	8,764,957
Medicaid revenue	17,127,472	-	-	17,060,270
Contributions	524,215	625,000	112,561	1,197,347
Rental income on apartments	926,346	-	-	1,100,826
Food services	209,940	-	-	283,666
Other	407,554	-	-	555,025
Net assets released from restrictions	<u>620,834</u>	<u>(620,834)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>36,941,833</u>	<u>4,166</u>	<u>112,561</u>	<u>37,204,323</u>
Operating expenses:				
Program services:				
Housing programs	3,662,261	-	-	3,265,320
Bookstore	1,084,225	-	-	1,143,668
Thrift shops	7,764,094	-	-	7,606,025
Health and service programs	15,093,311	-	-	15,572,239
Food services	1,255,603	-	-	1,196,534
Advocacy, legal and advisory services	1,626,001	-	-	2,040,962
Research	136,430	-	-	165,134
Property and facility management	<u>1,252,224</u>	<u>-</u>	<u>-</u>	<u>1,199,644</u>
Total program expenses	31,874,149	-	-	32,189,526
Management and general	<u>5,456,194</u>	<u>-</u>	<u>-</u>	<u>6,570,745</u>
Total expenses	<u>37,330,343</u>	<u>-</u>	<u>-</u>	<u>38,760,271</u>
Changes in net assets	(388,510)	4,166	112,561	(1,555,948)
Net assets, beginning of year	<u>12,988,300</u>	<u>479,167</u>	<u>492,850</u>	<u>15,516,265</u>
Net assets, end of year	<u>\$ 12,599,790</u>	<u>\$ 483,333</u>	<u>\$ 605,411</u>	<u>\$ 13,960,317</u>

The accompanying notes are an integral part of this consolidated statement.

Housing Works, Inc. and Affiliates

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2007, with comparative totals for the year ended June 30, 2006

	Program Expenses										2006 Total Expenses	
	Housing Programs	Bookstore	Thrift Shops	Health and Service Programs	Food Services	Advocacy, Legal and Advisory Services	Research	Property and Facility Management	Total Program Expenses	Management and General		
Expenses:												
Salaries and wages	\$1,723,903	\$ 406,825	\$ 3,005,531	\$ 7,607,690	\$ 457,457	\$ 786,558	\$ 43,105	\$ 830,913	\$14,861,982	\$ 1,379,490	\$ 16,241,472	\$16,167,584
Fringe benefits	322,837	75,633	541,053	1,482,935	86,415	130,619	9,483	147,181	2,796,156	234,887	3,031,043	4,935,126
Professional service fees	35,242	4,992	48,793	634,851	6,826	49,469	59,237	4,410	843,820	287,157	1,130,977	901,969
Contracted services	180,793	20,298	186,646	919,609	46,297	62,348	4,821	27,159	1,447,971	243,015	1,690,986	1,946,157
Client stipends and reimbursements	10,403	-	-	225,303	740	40,294	-	-	276,740	3,555	280,295	369,123
Supplies	34,475	33,774	264,784	219,041	34,673	14,158	121	64,257	665,283	58,604	723,887	792,338
Occupancy expenses:												
Office	65,909	99,499	2,213,772	944,149	17,045	125,741	12,025	63,976	3,542,116	307,763	3,849,879	3,793,785
Client	330,692	-	-	-	-	3,591	-	-	334,283	14,018	348,301	349,091
Utilities:												
Office	97,579	147,131	257,460	529,960	11,945	72,556	3,316	35,615	1,155,562	207,371	1,362,933	1,291,543
Client	72,758	-	3,224	4,833	-	1,143	-	-	81,958	9,301	91,259	108,930
Transportation	45,788	579	117,169	594,269	20,192	158,965	291	38,188	975,441	59,464	1,034,905	1,135,985
Equipment rental, repairs and maintenance	86,353	8,095	25,571	142,614	15,642	15,800	9	6,372	300,456	95,928	396,384	274,782
Facility repairs and maintenance	59,249	9,944	26,104	110,684	1,614	3,304	1,106	1,801	213,806	43,005	256,811	229,066
Client participation expenses	36,313	73,056	258,299	216,927	535,601	50,637	-	52	1,170,885	117,003	1,287,888	1,554,860
Staff expense	3,351	918	575	76,802	1,795	30,552	923	20,791	135,707	79,836	215,543	188,606
Depreciation and amortization	400,526	31,606	136,018	469,361	2,462	-	-	1,025	1,040,998	578,194	1,619,192	1,571,754
Bad debt expense	-	-	-	-	-	-	-	-	-	931,246	931,246	576,557
Interest and finance fees	78,995	14,017	216,054	678,458	1,803	751	-	-	990,078	318,450	1,308,528	1,134,552
Other expenses	77,095	157,858	463,041	235,825	15,096	79,515	1,993	10,484	1,040,907	487,907	1,528,814	1,438,463
Total expenses	\$3,662,261	\$1,084,225	\$7,764,094	\$15,093,311	\$ 1,255,603	\$1,626,001	\$136,430	\$ 1,252,224	\$31,874,149	\$ 5,456,194	\$ 37,330,343	\$38,760,271

The accompanying notes are an integral part of this consolidated statement.

Housing Works, Inc. and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (271,783)	\$ (1,555,948)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,619,192	1,571,754
Reserve for uncollectible Medicaid receivables	931,246	576,557
Contributions restricted for endowment	(112,561)	(18,296)
Net appreciation in fair market value of investments	(188,768)	(24,074)
Changes in operating assets and liabilities:		
Increase in Medicaid receivables	(1,144,735)	(1,326,020)
Decrease (increase) in grants and contract services receivable	360,533	(299,409)
Increase in contributions receivable	(114,551)	(59,949)
Increase in thrift shop and bookstore inventory	(579,904)	(356,484)
Decrease in accounts receivable - legal settlement	-	4,800,000
Increase in prepaid expenses and other assets	(365,688)	(20,472)
Increase in accounts payable and accrued expenses	1,055,016	761,398
Increase in deferred rent expense	127,170	118,957
Decrease in other liabilities	-	(48,567)
Net cash provided by operating activities	<u>1,315,167</u>	<u>4,119,447</u>
Cash flows from investing activities:		
Purchases of property and equipment	(4,052,144)	(3,546,967)
(Increase) decrease in restricted cash	(8,272)	1,319,210
Purchases of investments	-	(1,639,488)
Endowment redemptions	386,321	-
Decrease (increase) in investment in related entities	84,169	(93,496)
Increase in security deposits and other assets	(167,102)	(1,345,592)
Net cash used in investing activities	<u>(3,757,028)</u>	<u>(5,306,333)</u>
Cash flows from financing activities:		
Proceeds from loans payable	3,021,622	2,092,040
Repayments of loans payable	(536,291)	(1,471,779)
Contributions restricted for endowment	112,561	18,296
Net cash provided by financing activities	<u>2,597,892</u>	<u>638,557</u>
Net increase (decrease) in cash	156,031	(548,329)
Cash, beginning of year	<u>186,034</u>	<u>734,363</u>
Cash, end of year	<u>\$ 342,065</u>	<u>\$ 186,034</u>
Supplemental cash flow information:		
Interest paid	<u>\$ 345,065</u>	<u>\$ 683,058</u>

The accompanying notes are an integral part of these consolidated statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

NOTE A - ORGANIZATION AND NATURE OF ACTIVITIES

Housing Works, Inc. (“HWI”) was organized for the purpose of providing assistance and expertise to homeless persons living with AIDS or HIV-related illnesses; advocating for homeless services; and providing expertise in the development of housing for homeless persons living with AIDS or HIV-related illnesses.

To assist in providing these services, HWI established the following separately incorporated not-for-profit affiliates (collectively, the “Organization”), which, through sole membership, are controlled by the management of HWI:

Housing Works Used Book Café, Inc. (the “Bookstore”) was organized exclusively for the benefit of and to carry out the purposes of HWI by providing relief, assistance and financial support, directly or indirectly, to homeless persons living with AIDS or HIV-related illnesses. The Bookstore carries approximately 45,000 used and rare books and records; the café serves sandwiches, soups and assorted refreshments and hosts special events.

Housing Works Thrift Shop, Inc. (“Thrift”) was organized exclusively for the benefit of and to carry out the purposes of HWI by providing relief, assistance and financial support, directly or indirectly, to homeless persons living with AIDS or HIV-related illnesses. Thrift conducts these activities from five shops located in New York City.

Housing Works Food Services, Inc. (“HWFSC”) was organized exclusively for the benefit of and to carry out the purposes of HWI by providing relief, assistance and financial support, directly or indirectly, to homeless persons living with AIDS or HIV-related illnesses. HWFSC provides institutional catering services to day treatment centers, supportive residences and other facilities including community catering.

Housing Works Health Services, Inc. (“HWS1”), located at 743-749 East 9th Street, New York City, was organized to establish one or more freestanding diagnostic and treatment facilities; be licensed under Article 28 of the New York State health law; and be located in New York City. These facilities provide a broad range of health services to persons living with AIDS or HIV-related illnesses. In addition, HWS1 promotes and carries out certain research and educational activities related to providing care to the sick, injured and disabled, and promoting the health of the public.

Housing Works, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE A (continued)

Housing Works Health Services II, Inc. (“HWS2”), located at 320 West 13th Street, New York City, was organized to establish one or more freestanding diagnostic and treatment facilities; be licensed under Article 28 of the New York State health law; and be located in New York City. These facilities provide a broad range of health services to persons living with AIDS or HIV-related illnesses. In addition, HWS2 promotes and carries on certain research and educational activities related to providing care to the sick, injured and disabled, and promoting the health of the public.

Housing Works Health Services III, Inc. (“HWS3”), located at 2626 Pitkin Avenue, Brooklyn, New York, was organized to establish one or more freestanding diagnostic and treatment facilities; be licensed under Article 28 of the New York State health law; and be located in New York City. These facilities provide a broad range of health services to persons living with AIDS or HIV-related illnesses. In addition, HWS3 promotes and carries on certain research and educational activities related to providing care to the sick, injured and disabled, and promoting the health of the public.

Gotham Assets Management Services (“Gotham”) is a non-profit corporation established to provide property management and logistical services to the Organization.

Housing Works Housing Development Fund Corporation (“HWDC1”), located at 743-749 East 9th Street, New York City, was organized to develop a housing project for homeless or formerly homeless persons of low income with AIDS or HIV-related illnesses.

Housing Works East New York Housing Development Fund Corporation (“HWDC2”), located at 2640 Pitkin Avenue, Brooklyn, New York, was organized to develop a housing project for homeless or formerly homeless persons of low income with AIDS or HIV-related illnesses.

Housing Works Harlem Housing Development Fund Corporation, Inc. (“HWDC3”), located at 143-145 West 130th Street, New York City, was organized to develop a housing project for homeless or formerly homeless persons of low income with AIDS or HIV-related illnesses.

Housing Works Brooklyn Housing Development Fund Corporation, Inc. (“HWBHDFC”), located at 208 Montauk Avenue, Brooklyn, New York, was organized to develop a housing project for homeless or formerly homeless persons of low income with AIDS or HIV-related illnesses.

Housing Works, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE A (continued)

Housing Works Pitkin Avenue Housing Development Fund Corporation, Inc. ("PitkinHDFC") located at 2609 Pitkin Avenue, Brooklyn, New York, was organized to develop a housing project for homeless or formerly homeless persons of low income with AIDS or HIV-related illnesses.

Housing Works 454 Lexington Avenue Housing Development Fund Corporation, Inc. ("LEX"), located at 454 Lexington Avenue, New York City, was organized to develop a housing project for homeless or formerly homeless persons of low income with AIDS or HIV-related illnesses.

Housing Works 874 Jefferson Avenue Housing Development Fund Corporation, Inc. ("JEFF"), located at 874 Jefferson Avenue, Brooklyn, New York, was organized to develop a housing project for homeless or formerly homeless persons of low income with AIDS or HIV-related illnesses.

Community Advocacy and Advisory Services ("CAAS") is a not-for-profit organization that provides consulting, community organization and lobbying services to other organizations.

The Organization was incorporated as not-for-profit corporations under the laws of the State of New York that are classified as 501(c)(3) organizations, which are exempt from income taxes under Section 501(a) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying consolidated financial statements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting. All intercompany transactions and balances have been eliminated in consolidation.

The Organization's net assets and related revenues and support are classified based upon the existence or absence of donor-imposed stipulations, as follows:

Unrestricted Net Assets

Available for Operations - include all resources of the Organization, which are expendable for carrying on the Organization's mission.

Housing Works, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE B (continued)

Board-designated - include resources designated by the Organization's Board of Directors for the following:

Housing investments	\$ 2,000,000
Keith Cylar Endowment Fund	1,000,000
Endowment	1,000,000
Asset development	<u>800,000</u>
Total	<u>\$ 4,800,000</u>

There were no changes in Board-designated net assets during Fiscal 2007.

Investment in Plant - include the property, plant and equipment owned by the Organization, net of accumulated depreciation and amortization, and the associated debt incurred to acquire or construct such assets, debt service reserves and funds available for plant improvement.

Temporarily Restricted Net Assets

Net assets whose use by the Organization is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by the actions of the Organization pursuant to those stipulations.

Permanently Restricted Net Assets

Net assets whose use by the Organization is limited by donor-imposed stipulations requiring such resources to be maintained in perpetuity and the income therefrom be utilized for operating or other donor-restricted purposes.

For the years ended June 30, 2007 and 2006, the Organization received \$112,561 and \$18,296, respectively, in permanently restricted contributions, to be included within the endowment fund established in the memory of a deceased co-president.

Housing Works, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE B (continued)

2. *Thrift Shop Inventory*

Inventory, which consists of donated goods for the thrift shops and bookstores, is stated at estimated fair market value at the date of the gift, which approximates the actual sales price of the donated items.

3. *Property and Equipment, Net*

Property and equipment, net, are stated at cost at date of acquisition or fair market value at date of contribution, if donated. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. Amortization of leasehold improvements has been calculated over the lesser of the estimated useful lives of the assets or the related lease term. The Organization depreciates its assets using the half-year convention method in the first year the assets are placed in service. Assets are depreciated over the following useful lives:

Buildings and building improvements	30 years
Equipment, furniture and fixtures	5-20 years
Vehicles	4 years

4. *Investments*

Investments consist primarily of equity, fixed income securities and cash funds and are reflected at fair value in the accompanying consolidated financial statements.

5. *Contributions*

Contributions are recorded as either unrestricted, temporarily restricted or permanently restricted revenue depending upon the existence or absence of donor-imposed stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions expire during the same fiscal year are reflected as simultaneous releases and are recorded as unrestricted contributions. All contributions receivable are expected to be collected within one year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE B (continued)

6. Revenues

Revenues from government contracts for specific programs are recognized in the period when expenditures have been incurred in compliance with the respective contract. Contracts awarded for the acquisition of long-lived assets are reported as unrestricted revenue during the fiscal year in which the assets are acquired. Medicaid revenue is reimbursed to the Organization at the rate determined by state regulations. Reimbursement rates are subject to revisions under the provisions of cost reimbursement regulations. Medicaid and other governmental grants and contracts are subject to audit and potential disallowance. It is management's opinion that any potential disallowances will not have a material effect on the accompanying consolidated financial statements.

7. Start-Up Costs

In order to ensure the successful start-up of the Adult Day Health Care programs, the Dormitory Authority of the State of New York ("DASNY") authorized the inclusion of start-up and initial occupancy expense funds in the mortgage financing, which is the standard procedure for the development of state-financed healthcare facilities. These costs were financed by the respective mortgages (Note E), but in accordance with the requirements of accounting principles generally accepted in the United States of America, were reflected as operating expenses when incurred.

8. Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

9. Presentation of Certain Prior Year Summarized Information

The accompanying consolidated financial statements include prior year summarized information in total but not by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements as of and for the year ended June 30, 2006, from which the summarized information was derived.

Housing Works, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE C - PROPERTY AND EQUIPMENT, NET

At June 30, 2007 and 2006, property and equipment, net, consisted of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 834,209	\$ 834,209
Buildings and building improvements	11,273,778	11,253,573
Equipment, furniture and fixtures	4,705,159	4,401,976
Vehicles	378,633	378,633
Leasehold improvements	15,100,874	14,848,624
Construction in progress	<u>3,814,085</u>	<u>337,579</u>
	<u>36,106,738</u>	<u>32,054,594</u>
Less: Accumulated depreciation and amortization	<u>(11,856,734)</u>	<u>(10,237,541)</u>
	<u>\$ 24,250,004</u>	<u>\$ 21,817,053</u>

A portion of the Organization's property and equipment was purchased with funding received from the United States Department of Health and Human Services and the United States Department of Housing and Urban Development. Funding for these capital expenditures was provided with the stipulation that if the Organization ceases to operate certain programs, the property and equipment could revert to the funding source.

NOTE D - INVESTMENTS

Related Entities

On June 6, 2003, the Organization acquired a 25% ownership interest in a management service organization (the "MSO") for \$260,000. This investment is accounted for under the equity method. At June 30, 2007 and 2006, the investment was valued at \$89,612 and \$80,285, respectively. The MSO provided financial management services to the Organization during the years ended June 30, 2007 and 2006 for which the Organization paid approximately \$1,398,000 and \$1,417,000, respectively.

Housing Works, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE D (continued)

During fiscal 2003, the Organization acquired an 18% ownership interest in VidaCare, Inc. for \$300,000. This investment is accounted for at cost. An impairment of this investment had been recorded in the amount of \$300,000 for the year ended June 30, 2005. During fiscal 2007 and 2006, the Organization contributed additional capital of \$40,000 and \$52,903, respectively. In addition, during fiscal 2006, \$40,593, which the Organization had recorded as accounts receivable from VidaCare, Inc., was reclassified as an investment. During fiscal 2007, the entire investment in Vida Care, Inc. was written off since Vida Care, Inc. had an accumulated deficit at that time.

Endowment Investments

During fiscal 2006, the Organization established two endowment investments. One was established in the name of Keith Cylar and the other as a general endowment. Both endowments are invested in equity and fixed income securities, and cash funds managed by an international financial services firm. At June 30, 2007 and 2006, Keith Cylar endowment totaled \$1,398,046 and \$1,558,123, respectively. At June 30, 2007 and 2006 the general endowment totaled \$67,964 and \$105,439, respectively.

At June 30, 2007, investments, at fair value, consisted of the following:

Cash and cash equivalents	\$ 19,596
Equity securities	534,055
Fixed income securities	590,417
Balanced fund	<u>321,942</u>
	<u>\$ 1,466,010</u>

NOTE E - LOANS PAYABLE

At June 30, 2007 and 2006, loans payable consisted of the following:

	2007	2006
Line of credit - \$2,000,000 secured by current receivables, bearing interest at the prime rate plus 1% (9.25% and 7.25% at June 30, 2007 and 2006, respectively).	\$ 2,000,000	\$ 2,000,000
Mortgage payable - \$5,595,000 face amount, due November 2020, payable in monthly installments with interest at 6% per annum. The mortgage is with DASNY and is secured by the related property at 2626 Pitkin Avenue, Brooklyn, New York.	4,225,000	4,245,000

Housing Works, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE E (continued)

	<u>2007</u>	<u>2006</u>
Mortgage payable - \$5,075,000 face amount, due November 2020, payable in monthly installments with interest at 6% per annum. The mortgage is with DASNY and is secured by the related property at 743-749 East 9 th Street, New York City.	\$ 3,875,000	\$ 3,895,000
Mortgage payable - \$3,045,000 face amount, due November 2010, payable in monthly installments with interest at 6% per annum. The mortgage is with DASNY and is secured by the related property at 320 West 13 th Street, New York City.	1,060,000	1,085,000
Mortgage payable - \$220,500 face amount, due June 2016, payable in monthly installments of \$2,044 with interest at 7.50% per annum. The mortgage is secured by the related property at 208 Montauk Avenue, Brooklyn, New York. This loan is through the Low Income Housing Fund.	160,180	172,201
Mortgage payable - \$282,621 face amount, due February 2009, payable in monthly installments of \$2,692 with interest at 7.75% per annum. The mortgage is secured by the property at 2609 Pitkin Avenue, Brooklyn, New York. The loan is through the Low Income Housing Fund.	219,295	233,978
Note payable - \$327,000 face amount due February 2010, payable in monthly installments of \$3,004 with interest of 7.5% per annum, with the final payment of unpaid principal and interest due on the due date. The loan is through the Low Income Housing Fund.	327,000	327,000
Loan payable - \$250,000 face amount, for a term not to exceed 60 months from October 3, 2002, payable to DASNY. The loan is funded through the State of New York Department of Health Revolving Loan Fund, and the proceeds used exclusively for HIV Special Needs Plans' governance for VidaCare, Inc.	250,000	250,000
Loan payable - \$75,000 face amount, payable in equal semiannual installments of \$7,500, due July 1 and January 1 of each year through the final payment due date of January 1, 2008. Interest is 5% per annum. The loan is through the Corporation for Supportive Housing.	15,000	30,000
Note payable - \$956,000 face amount with a maturity date of July 30, 2014, payable in monthly installments of \$10,865, including interest of 6.52% per annum. The loan is through Primary Care Development Corporation.	744,866	823,865

Housing Works, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE E (continued)

	<u>2007</u>	<u>2006</u>
Loan payable - \$128,571, representing the Organization's pro rata share of a loan guaranteed by the partners of VidaCare, Inc. The loan is payable by VidaCare, Inc. to FJC at an interest rate of 9%. During fiscal 2005, the Organization commenced making quarterly interest-only payments on the loan in the amount of \$2,895.	\$ 128,571	\$ 128,571
Note payable - \$500,000 face amount payable in monthly payments of principal and interest beginning the first month after the conversion date. Interest is 6.5% per annum over an amortization period of 10 years. As of June 30, 2007, disbursements totaling \$379,122 had been made. The loan is through the Low Income Investment Fund	379,122	292,044
Line of credit - \$2,400,000 - term note comprised of multiple advances bearing interest of 6.67% per annum. The unpaid principal and interest are to be paid in 108 equal consecutive monthly installments beginning on November 1, 2007.	2,364,000	-
Line of credit - \$300,000 - secured by property and accounts of Housing Works Thriftshop, Inc., bearing interest of .75% above a base rate as announced periodically by the lender (8.25% at June 30, 2007).	186,367	-
Loan payable - \$70,000 face amount payable with interest on January 1, 2008. The loan bears interest of 7% per annum. As of June 30, 2007, disbursements totaling \$33,589 had been made. The loan is through the Low Income Investment Fund	<u>33,589</u>	<u>-</u>
Total loans payable	15,967,990	13,482,659
Less: Current maturities	<u>(3,242,105)</u>	<u>(2,735,872)</u>
Long-term portion	<u>\$ 12,725,885</u>	<u>\$ 10,746,787</u>

Future principal payments of loans payable at June 30, 2007 are as follow:

Year ending June 30,	
2008	\$ 3,242,105
2009	1,048,613
2010	1,148,308
2011	1,177,001
2012	1,310,841
Thereafter	<u>8,041,122</u>
	<u>\$ 15,967,990</u>

Housing Works, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE E (continued)

For the years ended June 30, 2007 and 2006, interest expense totaled \$753,764 and \$693,505, respectively.

At June 30, 2007 and 2006, restricted cash of approximately \$376,000 and \$368,000, respectively, represented funds on deposit in debt service reserve funds held by the trustee in accordance with the DASNY bond indentures and collateral with financial institutions as required by the respective loan agreements.

Mortgage loans provided by DASNY included funding for start-up costs.

The Organization was in compliance with all loan covenants as of and for the years ended June 30, 2007 and 2006.

On July 30, 2004, Primary Care Development Corporation ("PCDC"), acting as construction lender, reimbursed the Organization and a third-party funder for the cost of construction and renovations incurred in connection with the expansion and upgrade of the primary care facilities at the Organization's three adult day care centers. A loan agreement was executed with the Organization in the amount of \$956,000. The amount outstanding on the loan at June 30, 2007 was approximately \$745,000.

NOTE F - COMMITMENTS AND CONTINGENCIES

The Organization is party to various noncancelable operating leases. These leases require minimum monthly rental payments during the first year of each lease and have scheduled increases thereafter.

Future minimum lease payments under these noncancelable operating leases follow:

Year ending June 30,	
2008	\$ 3,615,810
2009	3,617,973
2010	3,575,266
2011	2,807,424
2012	2,311,124
Thereafter	<u>6,652,477</u>
	<u>\$ 22,580,074</u>

Housing Works, Inc. and Affiliates

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

June 30, 2007

NOTE F (continued)

For the years ended June 30, 2007 and 2006, rent expense totaled approximately \$4,171,000 and \$4,024,000, respectively. Several leases contain escalation clauses for various expenses.

The Organization currently maintains two standby letters of credit. One letter is in the name of HWI, in favor of Coastal Equities, LLC (one of the Thrift landlords), totaling approximately \$60,000 and one in the name of Thrift, in favor of Bets Junior Store, LLC (another Thrift landlord), totaling approximately \$259,000.

The Organization has been named in several lawsuits in the normal course of business. In the opinion of management, these claims are not expected to have a material adverse effect on the Organization's consolidated financial position, changes in net assets or cash flows.

SUPPLEMENTARY INFORMATION

Housing Works, Inc. and Affiliates

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

As of June 30, 2007

	HVI	Bookstore	Thrift	HW51	HW52	HW53	HWFS3	HWFC3	HWDC1	HWDC2	HWDC3	HWBDFC	EWBDFC	Gobham	CAAS	LEX	JEFF	Total Consolidated
ASSETS																		
Current assets:																		
Cash	\$ 72,312	\$ 629	\$ 156,819	\$ 3,330	\$ 5,362	\$ 4,963	\$ 4,848	\$ 1,100	\$ 202	\$ 200	\$ 687	\$ 74	\$ 53,390	\$ 37,899	\$ -	\$ 250	\$ 342,065	
Medicaid receivables, net	229,860	-	639,194	850,060	350,265	-	-	-	-	-	-	-	-	-	-	-	2,069,379	
Grants and contract services receivables	497,557	-	91,927	40,094	4,472	-	-	-	-	-	-	-	-	-	59,071	52,256	916,649	
Contributions receivable	174,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	174,500	
Inventory	-	456,630	2,098,395	-	23,113	-	-	-	-	-	-	-	-	-	-	-	2,576,138	
Intercompany receivables/payables	7,423,574	180,200	980,086	(1,861,345)	(653,659)	(2,212,981)	145,525	(734,246)	(247,318)	(915,271)	(339,212)	842,135	(184,828)	(1,527,659)	(566,609)	-	-	
Prepaid expenses and other assets	516,487	-	-	-	37,327	29,995	-	2,742	-	-	-	2,799	-	15,480	6,640	6,209	717,672	
Total current assets	9,016,290	637,459	3,235,300	(1,127,464)	242,457	(1,706,629)	210,813	(685,439)	(189,915)	(910,599)	(249,195)	(334,339)	895,525	(131,449)	(1,461,926)	(907,894)	6,798,410	
Long-term assets:																		
Property and equipment, net of accumulated depreciation	1,731,483	280,190	891,365	3,542,703	3,394,110	2,252,380	11,750	2,450,102	2,498,296	3,302,362	249,195	533,007	10,146	-	2,492,498	720,417	24,250,004	
Restricted cash - debt service and contingency reserve funds	-	-	-	158,736	58,011	159,235	-	-	-	-	-	-	-	-	-	-	375,982	
Investments:																		
Money market endowment	67,964	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	67,964	
Keith Cylar endowment	1,398,046	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,398,046	
Security deposits and other assets	151,596	-	356,813	567,168	176,343	539,992	7,576	7,480	-	-	-	-	-	-	7,284	-	1,794,232	
Investment in related entities	89,612	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	89,612	
Total long-term assets	3,438,701	280,190	1,228,178	4,268,607	3,538,664	2,951,607	19,226	2,430,102	2,499,296	3,309,842	249,195	533,007	10,146	-	2,499,782	720,417	27,975,860	
Total assets	\$ 12,454,991	\$ 917,649	\$ 4,463,478	\$ 3,141,143	\$ 3,780,921	\$ 1,190,955	\$ 220,139	\$ 1,746,663	\$ 2,108,381	\$ 2,399,243	\$ (80,564)	\$ 196,668	\$ 905,671	\$ (131,449)	\$ 1,037,858	\$ 212,523	\$ 34,774,270	

LIABILITIES AND NET ASSETS

Current liabilities:																		
Accounts payable	\$ 1,882,792	\$ -	\$ 80,935	\$ 150,602	\$ 156,361	\$ 136,188	\$ 97,166	\$ 178,148	\$ 27,232	\$ 96,554	\$ 7,669	\$ 9,042	\$ 13,262	\$ 991	\$ 134,285	\$ 4,500	\$ 2,677,987	
Accrued expenses	475,161	-	10,903	120,384	58,574	3,589	3,589	-	-	-	-	-	15,945	-	-	-	684,556	
Accrued payroll and benefits	793,146	11,531	299,853	86,954	133,913	70,273	53,760	13,331	16,669	-	-	62,546	-	-	-	-	1,595,976	
Current portion of loans payable	2,262,871	-	186,587	48,101	229,212	48,101	-	-	-	-	-	12,953	15,867	15,000	379,123	45,510	3,242,105	
Total current liabilities	5,115,970	11,531	538,688	406,101	518,686	313,136	154,515	193,479	43,901	96,554	20,622	24,909	106,755	991	513,468	50,010	8,110,624	
Long-term liabilities:																		
Loans payable	115,700	-	246,127	4,075,188	3,444,076	4,425,188	-	-	-	-	-	147,227	203,429	-	-	-	315,077	
Deferred rent expense	-	-	3,100	-	-	-	-	-	-	-	-	-	-	-	-	-	246,127	
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,100	
Total liabilities	5,231,670	11,531	787,915	4,481,289	3,962,762	4,738,324	154,515	193,479	43,901	96,554	20,622	228,338	106,753	991	513,468	365,087	21,085,756	
Net assets:																		
Unrestricted	6,134,577	906,118	3,676,193	(1,340,146)	(181,841)	(3,547,369)	75,624	1,533,184	2,264,480	2,300,689	(248,413)	(31,670)	798,918	(132,440)	524,450	(152,564)	12,999,790	
Temporarily restricted	483,333	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	483,333	
Permanently restricted	605,411	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	605,411	
Total net assets	7,223,321	906,118	3,676,193	(1,340,146)	(181,841)	(3,547,369)	75,624	1,533,184	2,264,480	2,300,689	(248,413)	(31,670)	798,918	(132,440)	524,450	(152,564)	13,688,534	
Total liabilities and net assets	\$ 12,454,991	\$ 917,649	\$ 4,463,478	\$ 3,141,143	\$ 3,780,921	\$ 1,190,955	\$ 220,139	\$ 1,746,663	\$ 2,308,381	\$ 2,399,243	\$ (80,564)	\$ 196,668	\$ 905,671	\$ (131,449)	\$ 1,037,858	\$ 212,523	\$ 34,774,270	

Note: The management of Housing Works, Inc. and Affiliates believes that all intercompany receivables/payables will be settled in future years based on operating results of individual companies and there is no intent to subsidize these operations.

This schedule should be read in conjunction with the accompanying report of independent certified public accountants, and consolidated financial statements and notes thereto.

Housing Works, Inc. and Affiliates

CONSOLIDATING SCHEDULE OF REVENUES AND EXPENSES

For the year ended June 30, 2007

	HWI	Bolestone	Thrift	HWS1	HWS2	HWS3	HWFS3	HWFS4	HWDC1	HWDC2	HWDC3	HWBHD3C	PrishtHD3C	Gotham	CAAS	LEX	JEFF	Total Before Eliminations	Eliminations	Total Consolidated
Changes in Unrestricted Net Assets:																				
Operating revenues and other support:																				
Medical - Primary Care	\$ 3,806,226	\$ -	\$ -	\$ 3,712,517	\$ 5,545,449	\$ 2,755,600	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,869,812	\$ -	\$ 15,869,812
Medical - Primary Care	-	-	-	102,423	102,446	102,446	-	-	-	-	-	-	-	-	-	-	-	942,705	-	942,705
Vital Care revenue	1,918,387	-	-	485,425	73,545	108,923	299,110	376,359	547,946	481,938	-	-	-	41,232	506,091	437,841	11,084,200	5,245,374	16,329,574	
Government contracts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,084,200	-	11,084,200
Retail sales	-	1,382,316	9,701,884	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,425,618	1,217,621	2,643,239
Food sales	-	-	-	-	-	-	-	1,425,618	-	-	-	-	-	-	-	-	-	785,147	-	785,147
Online sales	-	421,014	364,133	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,445,048	-	1,445,048
Development fundraising	797,868	2,000	320,180	-	2,305	5,079	-	311,204	265,551	-	-	-	-	25,000	-	-	1,145,048	-	1,145,048	
Apartment rents	73,697	-	41,875	-	14,931	1,610	1,943	311,204	265,551	-	-	-	-	11,028	-	-	926,346	-	926,346	
Other revenues	231,160	55,322	32,929	34,857	14,931	1,610	1,943	311,204	265,551	-	-	-	-	11,028	-	-	926,346	-	926,346	
Total revenues and other support	6,827,318	1,860,652	10,461,001	4,712,158	6,142,000	3,383,890	1,427,561	687,563	830,847	481,938	-	-	-	28,514	568,943	548,932	40,154,722	3,192,889	42,347,611	
Operating expenses:																				
Salaries and wages	5,328,768	406,825	3,005,532	1,831,383	1,734,572	1,154,554	457,457	446,569	478,820	176,962	-	-	-	830,913	30,896	187,283	170,938	16,244,472	-	16,244,472
Fringe benefits	1,001,458	75,633	541,052	358,339	293,120	236,568	86,415	95,894	102,899	29,734	-	-	-	147,181	(9,645)	34,989	37,606	3,031,043	-	3,031,043
Professional service fees	471,697	4,992	48,793	167,412	315,278	579,322	6,826	5,383	5,319	1,679	392	430	430	4,410	233	12,583	5,726	1,130,977	-	1,130,977
Contracted services	1,520,527	58,477	549,904	668,160	824,509	79,332	133,381	68,791	99,034	121,579	-	-	-	78,244	3,675	82,187	4,883,875	3,192,889	1,690,986	
Client stipends and reimbursements	75,303	-	-	34,231	106,824	52,595	740	7,403	2,999	-	-	-	-	2,999	-	-	280,295	-	280,295	
Supplies	148,176	33,774	264,784	50,309	52,766	45,117	34,673	5,998	4,495	7,494	-	-	-	64,257	6,994	5,050	723,887	-	723,887	
Occupancy expenses:																				
Office	901,632	99,499	2,213,772	16,112	519,004	1,290	17,045	-	-	-	-	-	-	63,975	-	-	17,550	3,849,879	-	3,849,879
Client	212,609	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	91,083	348,301	-	348,301
Utilities:																				
Client	447,231	147,131	257,460	159,999	98,010	114,552	11,945	25,280	19,918	2,908	-	-	-	35,615	15,193	17,169	1,362,933	-	1,362,933	
Transportation	28,088	-	3,224	-	61	4,772	-	-	1,347	-	-	-	-	-	-	-	14,345	91,259	-	91,259
Equipment rental, repairs and maintenance	352,688	579	117,169	182,310	191,104	113,293	20,192	683	1,067	327	-	-	-	38,193	2,098	15,202	1,034,905	-	1,034,905	
Facility repairs and maintenance	174,802	8,095	25,572	25,646	36,949	18,499	15,642	47,842	8,194	9,310	1,843	3	3,372	1,883	396,384	1,883	396,384	-	396,384	
Client participation expenses	80,640	9,944	26,104	34,239	29,072	17,001	26,359	16,135	3,349	1,887	1,686	1,801	1,801	3,800	3,579	256,811	-	256,811		
Other expenses	196,386	75,057	258,299	51,743	108,202	55,000	535,601	10,070	5,075	1,488	170	15	52	717	717	12,093	1,287,888	-	1,287,888	
Bad debt expense	165,132	218	375	36,619	15,310	20,239	1,795	411	360	358	-	-	-	20,791	248	1,587	215,545	-	215,545	
Depreciation and amortization	46,044	157,828	663,041	188,764	145,756	126,031	2,462	93,587	118,310	100,743	-	-	-	10,485	10,112	1,250	1,258,814	-	1,258,814	
Interest and finance fees	580,664	31,666	150,018	188,764	145,756	126,031	2,462	93,587	118,310	100,743	-	-	-	48,986	1,270	631,242	-	631,242		
Management expenses	190,143	14,017	216,054	274,588	110,869	292,744	1,803	771	250	16,725	36,189	19,343	-	2,334	3,322	1,308,528	-	1,308,528		
Total expenses	(2,947,650)	(25,896)	(215,252)	(786,227)	(1,047,331)	(570,309)	(31,860)	(75,843)	(94,857)	(515,025)	(126,445)	(138,383)	(25,320)	(27,676)	(23,552)	(22,195)	(40,523,232)	(3,192,889)	(43,716,121)	
Change in unrestricted net assets before entrepreneurial contributions	9,847,884	1,148,301	8,342,605	5,180,956	6,031,755	3,674,301	1,374,547	919,658	944,857	515,025	-	-	-	1,383	421,654	564,493	40,523,232	-	41,087,726	
Entrepreneurial contributions	(6,020,540)	712,351	2,118,396	(468,798)	110,305	(290,411)	53,014	(232,095)	(114,010)	(33,087)	(85,927)	(21,295)	(21,295)	723,894	(12,029)	24,439	(388,510)	-	(388,510)	
Change in unrestricted net assets	(1,240,791)	131,459	1,861,911	(580,892)	532,205	(290,411)	(232,095)	(232,095)	(232,095)	(114,010)	(33,087)	(85,927)	(21,295)	723,894	(12,029)	24,439	(388,510)	-	(388,510)	
Changes in Temporarily Restricted Net Assets:																				
Contributions	625,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	625,000	-	625,000
Net assets released from restrictions	(620,834)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(620,834)	-	(620,834)
Increase in temporarily restricted net assets	4,166	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,166	-	4,166
Changes in Permanently Restricted Net Assets:																				
Contributions	112,561	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	112,561	-	112,561
Increase in permanently restricted net assets	112,561	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	112,561	-	112,561
Change in net assets	\$ (1,124,026)	\$ 580,892	\$ 532,205	\$ (468,798)	\$ 110,305	\$ (290,411)	\$ (0,091)	\$ (232,095)	\$ (114,010)	\$ (33,087)	\$ (85,927)	\$ (21,295)	\$ (21,295)	\$ 723,894	\$ (12,029)	\$ 24,439	\$ (271,783)	\$ -	\$ (271,783)	

This schedule should be read in conjunction with the accompanying report of independent certified public accountants, and consolidated financial statements and notes thereto.