THE FORTUNE SOCIETY, INC. AND AFFILIATES

Consolidated Financial Statements and
Supplementary Financial Information
For the Years Ended June 30, 2016 and 2015
With Independent Auditor's Report

MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

THE FORTUNE SOCIETY, INC. AND AFFILIATES
Consolidated Financial Statements and
Supplementary Financial Information
For the Years Ended June 30, 2016 and 2015

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MITCHELL TITUS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Senior Management
The Fortune Society, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of The Fortune Society, Inc. and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Fortune Society, Inc. and Affiliates as of June 30, 2016 and 2015, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial position and activities and schedules of accounts receivable and government grants and fees are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Mitchell & Titus, LLP

November 30, 2016

THE FORTUNE SOCIETY, INC. AND AFFILIATES
Consolidated Statements of Financial Position
As of June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 369,344	$ 272,999
Accounts receivable, net	4,919,826	5,181,986
Pledges receivable	641,416	1,568,184
Prepaid expenses and other assets	261,271	213,874
Property and equipment, net	1,315,230	1,073,322
Due from related parties	131,207	116,480
Security deposits	229,570	229,570
Investment in limited partnership	382,120	382,120
Receivable from limited partnerships	2,039,390	2,039,390
Total assets	$ 10,289,374	$ 11,077,925
LIABILITIES		
Accounts payable and accrued expenses	$ 554,216	$ 483,248
Accrued salaries and related expenses	381,162	341,133
Accrued vacation	506,051	424,951
Government refundable advances and reserves	716,029	373,771
Deferred rent	2,072,713	2,068,978
Bank line of credit/loans payable	600,000	1,990,000
Total liabilities	4,830,171	5,682,081
Commitments and contingencies		
NET ASSETS		
Unrestricted	4,320,496	3,690,789
Temporarily restricted	1,138,707	1,705,055
Total net assets	5,459,203	5,395,844
Total liabilities and net assets	$ 10,289,374	$ 11,077,925

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

THE FORTUNE SOCIETY, INC. AND AFFILIATES
Consolidated Statements of Activities
For the Years Ended June 30, 2016 and 2015

	Year Ended June 30, 2016			Year Ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total 2016	Unrestricted	Temporarily Restricted	Total 2015
OPERATING ACTIVITIES						
Public support and revenue						
Contributions and revenue from special events	$ 247,138	$ -	$ 247,138	$ 282,548	$ -	$ 282,548
Direct expenses from special events	(66,280)	-	(66,280)	(108,026)	-	(108,026)
Special events, net	180,858	-	180,858	174,522	-	174,522
Government grants and fees	23,209,023	-	23,209,023	20,946,583	-	20,946,583
Foundation grants, contributions and other	1,265,242	1,626,000	2,891,242	985,493	1,850,343	2,835,836
In-kind contributions	1,176,094	-	1,176,094	-	-	-
Other income	702,771	-	702,771	671,101	-	671,101
Net assets released from restrictions	2,192,348	(2,192,348)	-	2,094,327	(2,094,327)	-
Total public support and revenue	28,726,336	(566,348)	28,159,988	24,872,026	(243,984)	24,628,042
Expenses						
Program services	23,033,315	-	23,033,315	20,428,683	-	20,428,683
Management and general	4,147,843	-	4,147,843	3,540,980	-	3,540,980
Fundraising	911,736	-	911,736	510,350	-	510,350
Total operating expenses	28,092,894	-	28,092,894	24,480,013	-	24,480,013
Change in net assets from operations	633,442	(566,348)	67,094	392,013	(243,984)	148,029
NONOPERATING ACTIVITIES						
Rent expense attributable to straight-lining	(3,735)	-	(3,735)	(42,981)	-	(42,981)
Change in investment in limited partnership	-	-	-	58	-	58
Total nonoperating activities	(3,735)	-	(3,735)	(42,923)	-	(42,923)
Change in total net assets	629,707	(566,348)	63,359	349,090	(243,984)	105,106
Net assets, beginning of year	3,690,789	1,705,055	5,395,844	3,341,699	1,949,039	5,290,738
Net assets, end of year	$ 4,320,496	$ 1,138,707	$ 5,459,203	$ 3,690,789	$ 1,705,055	$ 5,395,844

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

THE FORTUNE SOCIETY, INC. AND AFFILIATES

Consolidated Statement of Functional Expenses

For the Year Ended June 30, 2016

	Program Services						Support Services			
	Employment and Education Services	Housing Services	Alternatives to Incarceration	Licensed Behavioral Health Services	Public Policy and Other Programs	Total Program Services	Management and General	Fund-Raising	Total Support Services	Total
Salaries	$ 1,902,852	$ 2,598,365	$ 1,807,348	$ 1,354,812	$ 3,134,237	$ 10,797,614	$ 2,268,877	$ 503,573	$ 2,772,450	$ 13,570,064
Payroll taxes and fringe benefits	569,111	778,482	541,166	405,050	938,755	3,232,564	662,459	151,024	813,483	4,046,047
Total personnel costs	2,471,963	3,376,847	2,348,514	1,759,862	4,072,992	14,030,178	2,931,336	654,597	3,585,933	17,616,111
Professional fees	270,729	70,286	58,884	235,890	1,755,078	2,390,867	270,248	50,402	320,650	2,711,517
Supplies, materials, printing, stationery and other	53,162	97,294	30,965	59,719	88,909	330,049	70,543	73,978	144,521	474,570
Staff training/conferences, activities	3,712	9,413	5,666	13,067	17,692	49,550	46,558	3,798	50,356	99,906
Client travel	266,115	30,884	67,441	101,134	73,903	539,477	-	-	-	539,477
Client rent	-	2,064,736	-	-	119,848	2,184,584	-	-	-	2,184,584
Client food, activities and other	71,403	137,563	21,004	41,525	46,116	317,611	-	1,070	1,070	318,681
Client stipends and incentives	223,190	46,179	25,158	18,413	48,513	361,453	-	-	-	361,453
Telephone	5,680	28,574	12,192	12,936	22,551	81,933	15,922	1,624	17,546	99,479
Occupancy	306,411	281,355	385,732	428,458	489,315	1,891,271	436,432	83,155	519,587	2,410,858
Internet and information technology services	16,478	35,711	27,398	31,592	50,650	161,829	104,055	12,253	116,308	278,137
Expensed furniture and equipment	21,026	98,805	24,595	40,472	49,496	234,394	33,082	5,340	38,422	272,816
Interest and bank fees	-	-	-	-	-	-	87,042	6,286	93,328	93,328
Bad debts	-	-	-	-	-	-	65,691	-	65,691	65,691
Insurance	19,559	48,137	22,033	28,735	48,862	167,326	25,761	5,572	31,333	198,659
Depreciation and amortization	51,587	70,471	49,011	36,726	84,998	292,793	61,173	13,661	74,834	367,627
Total expenses	$ 3,781,015	$ 6,396,255	$ 3,078,593	$ 2,808,529	$ 6,968,923	$ 23,033,315	$ 4,147,843	$ 911,736	$ 5,059,579	$ 28,092,894

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

THE FORTUNE SOCIETY, INC. AND AFFILIATES

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2015

	Program Services						Support Services			
	Employment and Education Services	Housing Services	Alternatives to Incarceration	Licensed Behavioral Health Services	Public Policy and Other Programs	Total Program Services	Management and General	Fund-Raising	Total Support Services	Total
Salaries	$ 2,216,366	$ 2,425,686	$ 1,734,476	$ 1,651,019	$ 2,539,935	$ 10,567,482	$ 1,945,497	$ 286,065	$ 2,231,562	$ 12,799,044
Payroll taxes and fringe benefits	616,505	674,520	482,313	459,105	706,364	2,938,807	546,904	79,571	626,475	3,565,282
Total personnel costs	2,832,871	3,100,206	2,216,789	2,110,124	3,246,299	13,506,289	2,492,401	365,636	2,858,037	16,364,326
Professional fees	383,630	57,558	73,099	153,631	173,217	841,135	174,866	55,105	229,971	1,071,106
Supplies, materials, printing, stationery and other	56,195	98,401	57,081	69,468	72,001	353,146	41,202	40,933	82,135	435,281
Staff training/conferences, activities	7,761	16,443	6,372	5,401	16,988	52,965	65,511	2,161	67,672	120,637
Client travel	218,751	34,885	59,636	118,262	72,377	503,911	-	-	-	503,911
Client rent	-	1,726,919	800	-	34,823	1,762,542	-	-	-	1,762,542
Client food, activities and other	31,429	118,385	23,197	53,018	23,687	249,716	-	-	-	249,716
Client stipends and incentives	191,860	88,140	59,835	16,467	30,727	387,029	-	-	-	387,029
Telephone	8,604	16,779	13,499	12,038	12,580	63,500	9,648	539	10,187	73,687
Occupancy	458,056	192,293	418,138	380,626	378,615	1,827,728	363,149	25,741	388,890	2,216,618
Internet and information technology services	39,938	45,119	39,792	43,124	54,561	222,534	96,607	6,573	103,180	325,714
Expensed furniture and equipment	37,760	55,837	41,650	34,210	65,079	234,536	38,315	4,177	42,492	277,028
Interest and bank fees	-	-	-	-	-	-	76,187	-	76,187	76,187
Bad debts	-	-	-	-	-	-	95,618	-	95,618	95,618
Insurance	44,343	13,208	39,049	36,960	36,003	169,563	40,588	2,606	43,194	212,757
Depreciation and amortization	53,294	58,323	41,704	39,697	61,071	254,089	46,888	6,879	53,767	307,856
Total expenses	$ 4,364,492	$ 5,622,496	$ 3,090,641	$ 3,073,026	$ 4,278,028	$ 20,428,683	$ 3,540,980	$ 510,350	$ 4,051,330	$ 24,480,013

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

THE FORTUNE SOCIETY, INC. AND AFFILIATES
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 63,359	$ 105,106
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Unrealized gain on investment in limited partnership	-	(58)
Depreciation and amortization	367,627	307,856
Bad debts	65,691	95,618
Deferred rent	3,735	42,981
Contribution related to forgiveness of loan payable	-	(25,000)
Changes in operating assets and liabilities		
(Increase) or decrease in assets		
Accounts receivable	196,469	(308,942)
Pledges receivable	926,768	(286,368)
Prepaid expenses and other assets	(47,397)	(120,862)
Due from related parties	(14,727)	(79,909)
Security deposits	-	68,484
(Decrease) or increase in liabilities		
Accounts payable and accrued expenses	70,968	(149,657)
Accrued salaries and related expenses	40,029	270,464
Accrued vacation	81,100	(30,762)
Government refundable advances and reserves	342,258	(254,534)
Net cash provided by (used in) operating activities	2,095,880	(365,583)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(609,535)	(257,410)
Net cash used in investing activities	(609,535)	(257,410)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments of bank line of credit/loans	(3,940,000)	(1,795,000)
Proceeds from bank line of credit/loans	2,550,000	1,865,000
Net cash (used in) provided by financing activities	(1,390,000)	70,000
Net increase (decrease) in cash and cash equivalents	96,345	(552,993)
Cash and cash equivalents, beginning of year	272,999	825,992
Cash and cash equivalents, end of year	$ 369,344	$ 272,999
SUPPLEMENTAL DISCLOSURE		
Cash paid during the year for interest	$ 34,708	$ 30,313

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

NOTE 1 ORGANIZATION AND NATURE OF ACTIVITIES

The accompanying consolidated financial statements include the accounts of The Fortune Society, Inc. (FSI), Fortune GP, Inc. (GP) and the Fortune Housing Development Fund Corporation (HDFC), which are collectively referred to as "Fortune".

FSI, founded in 1967 and incorporated in New York State, educates the public about prisons, criminal justice issues and the root causes of crime through a broad array of services, including education and counseling which helps ex-offenders and young people break the cycle of repeated crime and incarceration. Fortune receives most of its support from Federal, New York State and New York City governmental sources.

GP was formed in 2000 pursuant to the Business Corporation Law of the State of New York and serves as the general partner of Fortune L.P. (see Note 11). GP's capital stock is owned by HDFC.

HDFC was formed in 2000 pursuant to the Private Housing Finance Law and the Not-for-Profit Corporation Law, both of the State of New York. The sole member of HDFC is FSI.

During 2008, Fortune West 140th Street Housing Development Fund Corporation (WHDFC) was formed pursuant to the Private Housing Finance Law and the Not-for-Profit Corporation Law, both of the State of New York. The sole member of the WHDFC is FSI.

During 2008, Fortune West 140th Street G.P., Inc. (West GP) was formed pursuant to the Business Corporation Law of the State of New York and serves as the general partner of 625 West 140th Street L.P. (West L.P.) (see Note 11). WHDFC owns 75% of West G.P. and Harlem Congregations for Community Improvement, Inc. (HCCI), a New York not-for-profit corporation, owns the remaining 25% of West G.P.

The accounts of WHDFC, including its interests in West G.P., are immaterial to the accompanying consolidated financial statements and are, therefore, not included.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Fortune prepares its consolidated financial statements using the accrual basis of accounting. Fortune adheres to generally accepted accounting principles in the United States of America (U.S. GAAP). All significant intercompany transactions have been eliminated during the consolidation.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Net Asset Classifications

Fortune's unrestricted net assets are resources available for support of its operations over which the Board has discretionary control. Temporarily restricted net assets are assets that are subject to donor-imposed stipulations. When a restriction expires (that is, when a stipulated time restriction expires or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Fortune accounts for temporarily restricted contributions received, for which the donor-restricted purposes are met in the same period, in the unrestricted net asset class. Fortune does not imply a time restriction that expires over the useful life of donated long-lived assets if the donors do not stipulate for how long the donated assets must be used.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid instruments purchased with maturities of 90 days or less.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. Fortune capitalizes property and equipment with a cost of $5,000 or more and a useful life greater than one year. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lease term or the useful life of the asset, whichever is less. Purchases of equipment, reimbursed by governmental funding sources, and where the contractual agreement has specified that title to these items rests with the government funding sources, have been capitalized. Management believes this is realistic since the funding sources historically have not reclaimed these purchases.

Investment in Limited Partnership

The investment in Fortune L.P. is accounted for under the equity-method of accounting, under which Fortune's share of net income or loss is recognized in the consolidated statement of activities and added to or subtracted from the investment account. Capital contributions made are treated as an addition to the investment account, and distributions received are treated as a reduction to the investment account. There were no capital contributions or distributions during the years ended June 30, 2016 and 2015.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Support and Revenue and Accounts Receivable

The Organization recognizes revenue on its government grants and contracts when eligible costs to be reimbursed are incurred and claimed in compliance with the grantors' requirements or when performance requirements stipulated in the grants and contracts are achieved and the related amounts are claimed by Fortune. Under certain government grants and contracts, Fortune is reimbursed based on units of service multiplied by an established billing rate. Such rates are subject to change and adjustment on the basis of review by the government agencies responsible for such funding.

Government refundable advances and reserves represent advances received for future services and estimates of potential audit disallowances.

Accounts receivable are reported as outstanding uncollected balances, reduced by an allowance for doubtful accounts. As of June 30, 2016 and 2015, Fortune determined that an allowance for uncollectible accounts in the amount of $103,944 and $71,332, respectively, was necessary for accounts receivable. The determination was based on Fortune's historical loss experience and considering the age of its receivables. Fortune has not historically experienced significant bad debts given the nature of the underlying receivables, which are mainly from government sources.

Fortune records as revenue the following types of contributions when they are received unconditionally: cash, promises to give and in-kind contributions. Promises to give and in-kind contributions are recorded at their fair values. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. Bequests are recorded as income when the sum is certain, the will has passed through probate and any potential challenges are deemed insignificant. Donated securities are recorded at their fair market value on the date received using an average of the high or low price on the date received.

In-kind Contributions

Donated services are recognized as revenue and expense in the consolidated financial statements if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and those skills would typically need to be purchased, if they had not been donated. For the year ended June 30, 2016, Fortune received donated legal services valued at $1,176,094 related to a programmatic public policy initiative. For the year ended June 30, 2015, Fortune did not receive any donated goods and services.

Expense Allocation

Certain costs have been allocated between functional and supporting programs as determined by management.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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, the reported amounts of revenues and expenses during the reporting period and disclosures. Actual amounts, as determined at a later date, could differ from those estimates.

Operating Lease

Fortune leases its Long Island City office and the lease agreement contains scheduled future rent increases. U.S. GAAP requires that long-term leases, with scheduled rent increases, be accounted for by accelerating the impact of the future increases into the current periods, thereby smoothing the effects of the future increases in costs. This accounting treatment is commonly referred to as “straight-lining of rent”. The difference between rent expense, under this method, and the lower rental amounts actually paid to the landlord is reported as a “deferred rent” obligation in the accompanying consolidated statements of financial position. The change in the deferred rent liability is reflected as a non-operating item in the accompanying consolidated statement of activities. During the years ended June 30, 2016 and 2015, Fortune recorded an adjustment to rent expense to reflect its straight-line policy, which amounted to approximately $4,000 and $43,000, respectively, as an increase in expense.

Reclassifications

The depreciation and amortization expense amount in the prior-year consolidated statement of functional expenses has been reclassified among functional categories to conform to the current-year presentation.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The ASU requires an amended presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources and changes in those resources. The amendments are effective for Fortune’s fiscal year ending June 30, 2019, with early adoption permitted. This ASU will impact the presentation of Fortune’s consolidated financial statements and related disclosures when it is adopted.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recent Accounting Pronouncements *(continued)*

The FASB worked with the International Accounting Standards Board on a joint project regarding revenue recognition. ASU 2014-09, *Revenue from Contracts with Customers*, supersedes much of the existing revenue recognition guidance in U.S. GAAP. This guidance would now be effective for Fortune's fiscal year ending June 30, 2020 and would apply to exchange transactions, such as government contracts, but not to contribution arrangements. Fortune has not yet determined the impact that this ASU will have on its revenue recognition.

NOTE 3 CONCENTRATIONS

Fortune receives major funding primarily from government sources to provide program services. Such funding approximated 82% and 85% of total public support and revenue for the years ended June 30, 2016 and 2015, respectively. Accounts receivable is mostly from government sources, which, net of allowances, amounted to $4,897,187 and $5,149,635 as of June 30, 2016 and June 30, 2015, respectively.

Fortune maintains its cash and cash equivalents balances at two financial institutions, which are insured by the Federal Deposit Insurance Corporation up to $250,000. At times, balances may exceed the insured limit.

NOTE 4 ACCOUNTS RECEIVABLE

At June 30, 2016, accounts receivable includes approximately $756,000 of unbilled amounts due under a government contract signed in July 2016. The contract period is retroactive and will cover costs incurred for the related program during the year ended June 30, 2016.

NOTE 5 PLEDGES RECEIVABLE

Fortune's pledges receivable consist of the following as of June 30, 2016 and 2015:

	2016	2015
Amounts due in		
One year or less	$ 641,416	$ 1,507,184
One year to five years	-	61,000
	$ 641,416	$ 1,568,184

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2016 and 2015:

	2016	2015	Estimated Useful Lives
Leasehold improvements	$ 1,035,438	$ 840,693	8-15 years
Office equipment and furniture	1,634,100	1,441,600	5-10 years
Vehicles	214,740	248,587	5 years
Total cost	2,884,278	2,530,880	
Less: Accumulated depreciation and amortization	(1,569,048)	(1,457,558)	
	$ 1,315,230	$ 1,073,322	

NOTE 7 BANK LINE OF CREDIT/LOANS PAYABLE

The bank line of credit/loans payable consisted of the following as of June 30, 2016 and 2015:

	2016	2015	Interest Rate	Due Date
Bank line of credit expiring on December 31, 2016. The maximum borrowing is $3,000,000. There is a "cleanup" requirement to bring this line to an amount not greater than $750,000 once a year for a 30-day period. Borrowings are secured by all of Fortune's accounts receivable and other assets. As of June 30, 2016 and 2015, the prime rate recognized by most major banking institutions was 3.50% and 3.25%, respectively.	$ 600,000	$1,965,000	Prime + 0.5%	December 31, 2016
Foundation note	-	25,000	0%	(*)
Unsecured loan from past Board member with no interest	-	-	0%	Demand
	$ 600,000	$1,990,000		

(*) The loan was repaid during the year ended June 30, 2016.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Pursuant to Fortune's contractual relationships with certain governmental funding sources, outside governmental agencies have the right to examine the books and records of Fortune involving transactions relating to these contracts. The accompanying consolidated financial statements make no provision for possible disallowances. Although such possible disallowances could be substantial in amount, in the opinion of management, any actual disallowances would be immaterial.

Fortune leases office space in Long Island City, New York under an operating lease agreement expiring in February 2023. Fortune is obligated for the following future annual rentals for the fiscal years ended after June 30, 2016:

2017	$ 1,649,000
2018	1,755,000
2019	1,929,000
2020	1,977,000
2021	2,027,000
Thereafter	3,486,000
	$ 12,823,000

Rent expense for the years ended June 30, 2016 and 2015 amounted to $1,608,931 and $1,569,689, respectively, and is included in occupancy expense in the accompanying consolidated financial statements. In addition, Fortune leases various equipment items and residential properties that are not long term in nature.

NOTE 9 INCOME TAXES

FSI and HDFC have been granted exemption from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code and have been classified as organizations that are not private foundations. FSI and HDFC are also exempt from state and local income taxes. Therefore, these entities have made no provision for federal, state and local income taxes in the accompanying consolidated financial statements.

FSI and HDFC file annual informational returns and GP files an annual income tax return with the Internal Revenue Service.

At June 30, 2016, GP has net operating loss carryforwards of approximately $177,000, expiring through 2028. GP has a deferred tax asset of approximately $60,000 at June 30, 2016 and 2015 related to the utilization of the net operating loss carryforwards. A valuation allowance of an equal amount was provided as of June 30, 2016 and 2015 due to uncertainty related to the realization of the deferred tax assets.

NOTE 9 INCOME TAXES *(continued)*

All significant tax positions have been considered by management and it has been determined that all tax positions would be sustained upon examination by taxing authorities. There are no uncertain tax positions that require recognition in the accompanying consolidated financial statements or further disclosure in the notes to the consolidated financial statements. Management believes that Fortune is no longer subject to federal or state and local income tax examinations by tax authorities for years prior to 2012.

NOTE 10 PENSION PLAN

Fortune has a qualified defined contribution pension plan covering all eligible full-time employees. Fortune is required to match employee contributions in accordance with the pension plan agreement. Fortune's maximum contribution is $1,500 per year per employee. Pension expense for the years ended June 30, 2016 and 2015 amounted to $215,000 and $127,500, respectively.

NOTE 11 INVESTMENT IN LIMITED PARTNERSHIPS

Fortune, L.P.

During 2000, Fortune invested in Fortune L.P. (a limited partnership formed under the laws of the State of New York) for the purpose of constructing and operating a rental housing project. Fortune L.P. operates a 34-unit rental housing project for formerly incarcerated low-income individuals located at 630 Riverside Drive in New York City.

GP is the general partner of Fortune L.P. and has a 0.01% interest in Fortune L.P. GP transferred real property (net of a mortgage) in satisfaction of its capital contribution obligation. GP's investment interest in Fortune L.P. is reflected as an investment in limited partnership in the accompanying consolidated statements of financial position. The change in the investment in limited partnership is reflected in the accompanying consolidated statements of activities as part of non-operating activities.

As of June 30, 2016 and 2015, Fortune L.P.'s total assets amounted to $5,489,790 and $5,687,057, respectively, and its liabilities totaled $5,868,899 and $5,807,430, respectively. For the years ended June 30, 2016 and 2015, Fortune L.P. had a net loss of $258,736 and $349,505, respectively.

NOTE 11 INVESTMENT IN LIMITED PARTNERSHIPS *(continued)*

Fortune, L.P. (continued)

Fortune L.P.'s partnership agreement provides for various obligations and/or guarantees by FSI and/or GP. Effective July 31, 2000, Fortune L.P. entered into an agreement with FSI and GP, whereby FSI has agreed to advance funds to GP to cover operating deficit cash shortfalls. The obligation of FSI to advance funds to GP to fund the operating deficit guaranty is limited to $500,000 and the guaranty period terminates at the end of the tax credit compliance period in 2016. As of June 30, 2016 and 2015, a balance of $500,000 remains, which is to be advanced should Fortune LP experience future operating losses. During the years ended June 30, 2016 and 2015, there were no advances made by FSI and no contributions were made by GP under this operating deficit guaranty arrangement.

The tax compliance period terminates in 2016. GP will have the option to purchase the limited partner's interest in Fortune, L.P. at a buyout price equal to the greater of: (i) the fair market value of the limited partner's interest, subject to the continued use of the property for low-income housing for at least an additional 15-year period after the tax compliance period or (ii) the sum of taxes attributable to such sale of the limited partner's interest, plus an amount to provide the limited partner with a return as stipulated in the limited partnership agreement. Under a right of first refusal, FSI may also purchase the property at a price defined in the limited partnership agreement after the tax compliance period terminates, subject to the property being maintained as low-income housing for an additional 15-year period after the tax compliance period.

625 West 140th Street, L.P.

During December 2008, Fortune invested in West L.P. (a limited partnership formed under the laws of the state of New York) for the purpose of acquiring, developing and operating a mixed-unit project consisting of 114 residential units, and a related community facility, all of which will be rented to low-income individuals and families. West L.P. acquired land from FSI for the project. As described in Note 1, FSI is the sole member of WHDFC, which owns 75% of the equity of West G.P. West G.P. is the general partner of West L.P. West G.P. has a 0.01% financial interest in West L.P. West G.P.'s capital contribution obligation was $10. As of June 30, 2016 and 2015, West G.P.'s investment in West L.P. is deemed immaterial to the accompanying consolidated financial statements.

West L.P.'s partnership agreement provides for various obligations and/or guarantees by FSI and/or West G.P. Effective December 23, 2008, the partnership established a guaranty reserve, which is limited to $375,000, for the purpose of funding any operating deficits. The guaranty reserve funds are held by West L.P. As of June 30, 2016 and 2015, no amounts have been withdrawn from the guaranty reserve by the partnership to fund any operating deficits.

NOTE 11 INVESTMENT IN LIMITED PARTNERSHIPS *(continued)*

625 West 140th Street, L.P. (continued)

On December 23, 2008, FSI executed two promissory notes with West L.P. in the amounts of $1,500,000 and $539,390, and, during 2009, advanced the sum total of the two amounting to $2,039,390 to West L.P. The underlying $2,039,390 was received from four funders and is considered grants by those funders with certain stipulations that the property be used for mission-based activities for not less than 15 years from the date the certificate of occupancy is issued, as prescribed in the grant agreements between those funders and FSI. If the property is used according to the stipulations, the grants are not repayable to the funders. Since the property is expected to be used for mission-based activities in accordance with these stipulations, the grant funding was reflected in the unrestricted net asset class. The promissory notes that FSI executed with West L.P. are not self-amortizing, and are secured by mortgages on the property located at 625 West 140th Street in New York City. The notes call for repayment of principal and accrued interest (at the rate of 0.5% per year) by the 33rd anniversary of the dates of the promissory notes, which is December 2041. One of the underlying grants that FSI received in the amount of $1,500,000 was loaned to West L.P. Under the terms of the grant to FSI, if a loan is made and interest is charged, any interest received by FSI must be remitted to the funder. No principal or interest was paid by West L.P. to FSI during the years ended June 30, 2016 and 2015. It is at least reasonably possible that some or all of the underlying assumptions related to collectability of the notes might change over time, which could have a material impact on FSI's ability to collect the full amount due. At June 30, 2016 and 2015, management considers the note receivable balance to be fully collectible.

During April 2010, FSI entered a shareholders' agreement with Harlem Congregations for Community Improvement, Inc. (HCCI), making FSI a 25% shareholder in Erbograph Housing Lending Corp. (EHLC), a New York corporation. EHLC, established by HCCI, receives capital contributions from HCCI in the form of loans. The capital contributions are funded from proceeds HCCI receives from Housing and Urban Development and other grants. EHLC, in turn, loans these funds to a limited partnership formed by HCCI for the purpose of developing a 65-unit low-income housing building for seniors. FSI has no ownership interest in the limited partnership. FSI contributed $100 of capital to EHLC and there will be no further value ascribed to FSI's interest in EHLC under the terms of the shareholders' agreement.

NOTE 12 RELATED-PARTY TRANSACTIONS

As of June 30, 2016 and 2015, Fortune L.P. owed FSI $123,519 and $108,836, respectively, representing operating costs paid by FSI. Other amounts included in due from related parties at June 30, 2016 and 2015 are primarily due from West HDFC and West G.P.

NOTE 12 RELATED-PARTY TRANSACTIONS *(continued)*

Social service fees of approximately $412,000 and $400,000 from West L.P. are reflected in other income in the accompanying consolidated statements of activities for the years ended June 30, 2016 and 2015, respectively.

NOTE 13 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30, 2016 and 2015:

	2016	2015
Time and purpose restricted pledges	$ 810,916	$ 1,223,937
Purpose restricted	327,791	481,118
	$ 1,138,707	$ 1,705,055

Temporarily restricted net assets of $2,192,348 and $2,094,327 were released from restrictions for the years ended June 30, 2016 and 2015 as a result of donor-imposed purpose restrictions being met.

NOTE 14 CHANGE IN NET ASSETS

Under U.S. GAAP, nonprofit organizations are required to reflect contribution revenue in the year received or pledged despite the fact that, at times, certain of these contributions are purpose restricted and the expenditures to accomplish the purpose do not occur until a subsequent period. This accounting methodology can cause a significant increase in the total revenue in the first year, and, accordingly, an increase in the change in total net assets. In the second year, if the expenditures are made, the total expense will show an increase over the prior year, and, accordingly, a decrease in the change in total net assets.

In addition, Fortune recognizes its rent expense on a straight-line basis, as described in Note 2, which resulted in higher rent expense under U.S. GAAP than what the actual cash outlay was to the landlord by approximately $4,000 and $43,000 for the years ended June 30, 2016 and 2015, respectively. This impact will reverse in future years.

Further, Fortune has several performance-based contracts from various governmental funding sources. Revenue on these contracts is based on milestones achieved pursuant to the contract stipulations as opposed to cost reimbursement. Since costs associated with these contracts are not necessarily linear in relationship to the revenue recognized, surpluses or losses are likely to occur unevenly between years.

NOTE 15 FAIR VALUE MEASUREMENTS

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the assets or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables summarize the valuation of Fortune's financial instruments (cash equivalents and interest-bearing cash balances) within the valuation hierarchy prescribed by ASC 820, as of June 30, 2016 and 2015:

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash equivalents and interest-bearing cash	$ 359,677	$ -	$ -	$ 359,677

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash equivalents and interest-bearing cash	$ 222,487	$ -	$ -	$ 222,487

NOTE 16 SUBSEQUENT EVENTS

Fortune has evaluated events and transactions occurring between July 1, 2016 and November 30, 2016, which is the date that the consolidated financial statements were available to be issued, for disclosure and recognition in the consolidated financial statements. There were no events or transactions during the subsequent event period requiring disclosure or recognition in the consolidated financial statements.

SUPPLEMENTARY FINANCIAL INFORMATION

THE FORTUNE SOCIETY, INC. AND AFFILIATES
Consolidating Statements of Financial Position
As of June 30, 2016 and 2015

	June 30, 2016					June 30, 2015				
	Fortune Society	Fortune HDFC	Fortune G.P.	Eliminations	Consolidated Total 2016	Fortune Society	Fortune HDFC	Fortune G.P.	Eliminations	Consolidated Total 2015
ASSETS										
Cash and cash equivalents	$ 369,344	$ -	$ -	$ -	$ 369,344	$ 272,999	$ -	$ -	$ -	$ 272,999
Accounts receivable, net	4,919,826	-	-	-	4,919,826	5,181,986	-	-	-	5,181,986
Pledges receivable	641,416	-	-	-	641,416	1,568,184	-	-	-	1,568,184
Prepaid expenses and other assets	261,271	-	-	-	261,271	213,874	-	-	-	213,874
Property and equipment, net	1,315,230	-	-	-	1,315,230	1,073,322	-	-	-	1,073,322
Due from related parties (West L.P. and Fortune L.P.)	99,397	-	31,810	-	131,207	82,439	-	34,041	-	116,480
Due from related party (Fortune G.P.)	167,000	-	-	(167,000)	-	167,000	-	-	(167,000)	-
Security deposits	229,570	-	-	-	229,570	229,570	-	-	-	229,570
Investment in Fortune G.P.	-	84,795	-	(84,795)	-	-	84,795	-	(84,795)	-
Investment in Fortune L.P.	-	-	382,120	-	382,120	-	-	382,120	-	382,120
Receivable from limited partnerships	2,039,390	-	-	-	2,039,390	2,039,390	-	-	-	2,039,390
Total assets	**$ 10,042,444**	**$ 84,795**	**$ 413,930**	**$ (251,795)**	**$ 10,289,374**	**$ 10,828,764**	**$ 84,795**	**$ 416,161**	**$ (251,795)**	**$ 11,077,925**
LIABILITIES										
Accounts payable and accrued expenses	$ 554,216	$ -	$ -	$ -	$ 554,216	$ 483,248	$ -	$ -	$ -	$ 483,248
Accrued salaries and related expenses	381,162	-	-	-	381,162	341,133	-	-	-	341,133
Accrued vacation	506,051	-	-	-	506,051	424,951	-	-	-	424,951
Government refundable advances	716,029	-	-	-	716,029	373,771	-	-	-	373,771
Due to related party (Fortune Society)	-	-	167,000	(167,000)	-	-	-	167,000	(167,000)	-
Deferred rent	2,072,713	-	-	-	2,072,713	2,068,978	-	-	-	2,068,978
Bank line of credit/loans payable	600,000	-	-	-	600,000	1,990,000	-	-	-	1,990,000
Total liabilities	4,830,171	-	167,000	(167,000)	4,830,171	5,682,081	-	167,000	(167,000)	5,682,081
NET ASSETS										
Unrestricted	4,073,566	84,795	162,135	-	4,320,496	3,441,628	84,795	164,366	-	3,690,789
Temporarily restricted	1,138,707	-	-	-	1,138,707	1,705,055	-	-	-	1,705,055
Common stock	-	-	100	(100)	-	-	-	100	(100)	-
Additional paid-in capital	-	-	84,695	(84,695)	-	-	-	84,695	(84,695)	-
Total net assets	5,212,273	84,795	246,930	(84,795)	5,459,203	5,146,683	84,795	249,161	(84,795)	5,395,844
Total liabilities and net assets	**$ 10,042,444**	**$ 84,795**	**$ 413,930**	**$ (251,795)**	**$ 10,289,374**	**$ 10,828,764**	**$ 84,795**	**$ 416,161**	**$ (251,795)**	**$ 11,077,925**

THE FORTUNE SOCIETY, INC. AND AFFILIATES

Consolidating Statements of Activities

For the Years Ended June 30, 2016 and 2015

	Year Ended June 30, 2016					Year Ended June 30, 2015				
	Fortune Society	Fortune HDFC	Fortune G.P.	Eliminations	Consolidated Total 2016	Fortune Society	Fortune HDFC	Fortune G.P.	Eliminations	Consolidated Total 2015
OPERATING ACTIVITIES										
Public support and revenue										
Contributions and revenue from special events	$ 247,138	$ -	$ -	$ -	$ 247,138	$ 282,548	$ -	$ -	$ -	$ 282,548
Direct expenses from special events	(66,280)	-	-	-	(66,280)	(108,026)	-	-	-	(108,026)
Special events, net	180,858	-	-	-	180,858	174,522	-	-	-	174,522
Government grants and fees	23,209,023	-	-	-	23,209,023	20,946,583	-	-	-	20,946,583
Foundation grants, contributions and other	2,891,242	-	-	-	2,891,242	2,835,836	-	-	-	2,835,836
In-kind contributions	1,176,094	-	-	-	1,176,094	-	-	-	-	-
Other income	702,771	-	-	-	702,771	671,101	-	-	-	671,101
Total public support and revenue	28,159,988	-	-	-	28,159,988	24,628,042	-	-	-	24,628,042
EXPENSES										
Program services	23,033,315	-	-	-	23,033,315	20,428,683	-	-	-	20,428,683
Management and general	4,145,612	-	2,231	-	4,147,843	3,538,450	-	2,530	-	3,540,980
Fundraising	911,736	-	-	-	911,736	510,350	-	-	-	510,350
Total operating expenses	28,090,663	-	2,231	-	28,092,894	24,477,483	-	2,530	-	24,480,013
Change in net assets from operations	69,325	-	(2,231)	-	67,094	150,559	-	(2,530)	-	148,029
NONOPERATING ACTIVITIES										
Rent expense attributable to straight-lining	(3,735)	-	-	-	(3,735)	(42,981)	-	-	-	(42,981)
Change in investment in limited partnership	-	-	-	-	-	-	-	58	-	58
Total nonoperating activities	(3,735)	-	-	-	(3,735)	(42,981)	-	58	-	(42,923)
Change in total net assets	65,590	-	(2,231)	-	63,359	107,578	-	(2,472)	-	105,106
Net assets, beginning of year	5,146,683	84,795	249,161	(84,795)	5,395,844	5,039,105	84,795	251,633	(84,795)	5,290,738
Net assets, end of year	$ 5,212,273	$ 84,795	$ 246,930	$ (84,795)	$ 5,459,203	$ 5,146,683	$ 84,795	$ 249,161	$ (84,795)	$ 5,395,844

THE FORTUNE SOCIETY, INC. AND AFFILIATES
Schedules of Accounts Receivable
As of June 30, 2016 and 2015

	2016	2015
NYC Department of Corrections	$ 649,426	$ 1,526,820
NYC Mayor's Office of Criminal Justice	813,874	1,029,843
Public Health Solutions	442,275	444,813
NYS Division of Criminal Justice Services	328,372	329,947
NYS Office of Alcoholism and Substance Abuse Services	-	283,561
NYC Department of Health and Mental Hygiene	1,022,960	235,016
NYS Department of Health	345,214	216,025
New York State Office of Temporary Disability Assistance	232,850	210,495
Medicaid	283,013	181,897
NYC Department of Probation	96,626	159,354
U.S. Department of Housing and Urban Development	254,961	157,162
U.S. Department of Health and Human Services	88,673	154,469
New York City Human Resources Administration	94,137	81,704
NYC Department of Youth and Community Development	4,831	49,222
Client Rent Receivable	126,583	-
Other receivables	239,975	192,990
Accounts receivable, before allowance for doubtful accounts	5,023,770	5,253,318
Less: Allowance for doubtful accounts	(103,944)	(71,332)
Accounts receivable, net	$ 4,919,826	$ 5,181,986

THE FORTUNE SOCIETY, INC. AND AFFILIATES
Schedules of Government Grants and Fees
For the Years Ended June 30, 2016 and 2015

	2016	2015
NYC Mayor's Office of Criminal Justice	$ 4,089,610	$ 3,933,624
NYC Department of Corrections	4,392,991	2,712,410
NYS Office of Alcoholism and Substance Abuse Services	1,750,390	2,209,743
U.S. Department of Health and Human Services	1,137,776	2,016,308
NYC Department of Health and Mental Hygiene	2,538,256	1,737,833
NYS Division of Criminal Justice Services	1,507,109	1,632,191
Public Health Solutions	1,793,539	1,243,494
U.S. Department of Housing and Urban Development	1,083,931	753,792
New York State Office of Temporary Disability Assistance	597,033	606,815
NYC Department of Youth and Community Development	582,271	587,156
NYC Department of Probation	521,424	584,755
NYS Department of Health	567,790	322,804
New York City Human Resources Administration	306,598	273,576
NYS Education Department	238,573	245,460
U.S. Department of Labor	-	234,763
Health Research Incorporated	171,038	178,563
U.S. Environmental Protection Agency	112,717	56,802
City of New York - New York City Council	-	2,900
Other	106,438	(136,216)
Total government grants	21,497,484	19,196,773
Medicaid	1,711,539	1,749,810
Total government grants and fees	$ 23,209,023	$ 20,946,583