THE FORTUNE SOCIETY, INC.
AND AFFILIATES

The Fortune Society
Building People, Not Prisons

Consolidated Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2018 and 2017

MARKS PANETH
ACCOUNTANTS & ADVISORS

THE FORTUNE SOCIETY, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2018 AND 2017

CONTENTS

Marks Paneth LLP
685 Third Avenue
New York, NY 10017
P 212.503.8800
F 212.370.3759
www.markspaneth.com

MARKS PANETH
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Fortune Society, Inc. and Affiliates ("Fortune") which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year 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 from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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 financial position of The Fortune Society, Inc. and Affiliates as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of Fortune as of and for the year ended June 30, 2017 were audited by other auditors whose report dated February 9, 2018 expressed an unmodified opinion on those consolidated financial statements.

Marks Paneth LLP

New York, NY
January 29, 2019

Morison KSi
Independent member

THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017

	As of June 30, 2018				As of June 30, 2017			
	The Fortune Society, Inc.	**Fortune HDFC**	**Eliminations**	**Consolidated Total 2018**	**The Fortune Society, Inc.**	**Fortune HDFC**	**Eliminations**	**Consolidated Total 2017**
ASSETS								
Cash and cash equivalents (Notes 2D and 3B)	$ 479,315	$ 5,623	$ -	$ 484,938	$ 371,170	$ 32,901	$ -	$ 404,071
Restricted cash (Notes 3B and 8)	-	363,678	-	363,678	-	365,489	-	365,489
Accounts receivable, net (Notes 2G, 3 and 4)	7,604,426	20,722	-	7,625,148	6,416,237	14,714	-	6,430,951
Pledges receivable (Note 2G)	2,303,237	-	-	2,303,237	1,221,783	-	-	1,221,783
Prepaid expenses and other assets	389,380	31,517	-	420,897	316,915	44,830	-	361,745
Property and equipment, net (Notes 2E and 6)	1,568,074	8,727,491		10,295,565	1,434,057	8,924,720	-	10,358,777
Due from controlled entities	308,449	-	(308,449)	-	286,581	-	(286,581)	-
Security deposits	214,325	-	-	214,325	229,222	6,540	-	235,762
Receivable from limited partnerships (Note 12)	2,039,390	-	-	2,039,390	2,039,390	-	-	2,039,390
TOTAL ASSETS	$ 14,906,596	$ 9,149,031	$ (308,449)	$ 23,747,178	$ 12,315,355	$ 9,389,194	$ (286,581)	$ 21,417,968
LIABILITIES								
Accounts payable and accrued expenses	$ 522,809	$ 25,149	$ -	$ 547,958	402,696	$ 63,011	$ -	$ 465,707
Accrued salaries and related expenses	446,410	-	-	446,410	436,780	-	-	436,780
Accrued vacation	753,176	-	-	753,176	710,192	-	-	710,192
Government refundable advances and reserves (Note 2H)	1,915,153	-	-	1,915,153	971,195	-	-	971,195
Due to controlled entities	-	308,449	(308,449)	-	-	286,581	(286,581)	-
Deferred rent (Notes 2L and 5)	1,893,509	-	-	1,893,509	2,036,225	-	-	2,036,225
Bank line of credit payable (Note 7)	3,290,000	-	-	3,290,000	1,825,000	-	-	1,825,000
Mortgage payable (Note 8)	-	5,048,046	-	5,048,046	-	5,048,046	-	5,048,046
Accrued mortgage interest (Note 8)	-	759,040	-	759,040	-	708,698	-	708,698
TOTAL LIABILITIES	8,821,057	6,140,684	(308,449)	14,653,292	6,382,088	6,106,336	(286,581)	12,201,843
COMMITMENTS AND CONTINGENCIES (Note 9)								
NET ASSETS (Note 2C)								
Unrestricted	4,120,516	(28,712)	-	4,091,804	4,442,283	245,799	-	4,688,082
Temporarily restricted (Note 14)	1,965,023	3,037,059	-	5,002,082	1,490,984	3,037,059	-	4,528,043
TOTAL NET ASSETS	6,085,539	3,008,347	-	9,093,886	5,933,267	3,282,858	-	9,216,125
TOTAL LIABILITIES AND NET ASSETS	$ 14,906,596	$ 9,149,031	$ (308,449)	$ 23,747,178	$ 12,315,355	$ 9,389,194	$ (286,581)	$ 21,417,968

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

THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

	For the Year Ended June 30, 2018								
	The Fortune Society, Inc.			Fortune HDFC					
	Unrestricted	Temporarily Restricted	The Fortune Society, Inc. Total	Unrestricted	Temporarily Restricted	Fortune HDFC Total	Eliminations	Consolidated Total 2018	Consolidated Total 2017
OPERATING ACTIVITIES:									
PUBLIC SUPPORT AND REVENUE:									
Contributions and revenue from special events (Note 2G)	$ 857,916	$ -	$ 857,916	$ -	$ -	$ -	$ -	$ 857,916	$ 724,535
Direct expenses from special events	(172,497)	-	(172,497)	-	-	-	-	(172,497)	(103,943)
Special events, net	685,419	-	685,419	-	-	-	-	685,419	620,592
Government grants and fees (Notes 2G, 5, 9 and 15)	29,267,766	-	29,267,766	-	-	-	-	29,267,766	25,782,516
Foundation grants, contributions and other (Note 2G)	1,000,402	2,829,500	3,829,902	-	-	-	-	3,829,902	3,979,236
In-kind contributions (Note 2I)	72,560	-	72,560	-	-	-	-	72,560	634,218
Contribution received in acquisition of additional interest in Fortune L.P. (Note 12A)	-	-	-	-	-	-		-	3,037,059
Other income (Note 13)	807,946	-	807,946	333,139	-	333,139	-	1,141,085	822,710
Net assets released from restrictions (Notes 2C and 14)	2,355,461	(2,355,461)	-	-	-	-	-	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	34,189,554	474,039	34,663,593	333,139	-	333,139	-	34,996,732	34,876,331
EXPENSES: (Note 2J)									
Program services	28,261,580	-	28,261,580	565,193	-	565,193	-	28,826,773	25,159,828
Management and general	5,221,993	-	5,221,993	42,457	-	42,457	-	5,264,450	4,988,507
Fundraising	1,170,464	-	1,170,464	-	-	-	-	1,170,464	1,007,562
TOTAL OPERATING EXPENSES	34,654,037	-	34,654,037	607,650	-	607,650	-	35,261,687	31,155,897
CHANGE IN NET ASSETS FROM OPERATIONS	(464,483)	474,039	9,556	(274,511)	-	(274,511)	-	(264,955)	3,720,434
NONOPERATING ACTIVITIES;									
Amortization of rent expense attributable to straight-lining (Note 2L)	142,716	-	142,716	-	-	-	-	142,716	36,488
TOTAL NONOPERATING ACTIVITIES	142,716	-	142,716	-	-	-	-	142,716	36,488
CHANGE IN NET ASSETS (Note 5)	(321,767)	474,039	152,272	(274,511)	-	(274,511)	-	(122,239)	3,756,922
Net Assets - Beginning of Year	4,442,283	1,490,984	5,933,267	245,799	3,037,059	3,282,858	-	9,216,125	5,459,203
NET ASSETS - END OF YEAR	$ 4,120,516	$ 1,965,023	$ 6,085,539	$ (28,712)	$ 3,037,059	$ 3,008,347	$ -	$ 9,093,886	$ 9,216,125

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

THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Year Ended June 30, 2017							
	The Fortune Society, Inc.			Fortune HDFC				
	Unrestricted	Temporarily Restricted	The Fortune Society, Inc. Total	Unrestricted	Temporarily Restricted	Fortune HDFC Total	Eliminations	Consolidated Total 2017
OPERATING ACTIVITIES:								
PUBLIC SUPPORT AND REVENUE:								
Contributions and revenue from special events (Note 2G)	$ 724,535	$ -	$ 724,535	$ -	$ -	$ -	$ -	$ 724,535
Direct expenses from special events	(103,943)	-	(103,943)	-	-	-	-	(103,943)
Special events, net	620,592	-	620,592	-	-	-	-	620,592
Government grants and fees (Notes 2G, 5, 9 and 15)	25,782,516	-	25,782,516	-	-	-	-	25,782,516
Foundation grants, contributions and other (Note 2G)	1,659,013	2,320,223	3,979,236	-	-	-	-	3,979,236
In-kind contributions (Note 2I)	634,218	-	634,218	-	-	-	-	634,218
Contribution received in acquisition of additional interest in Fortune L.P. (Note 12A)	-	-	-	-	3,037,059	3,037,059	-	3,037,059
Other income (Note 13)	822,710	-	822,710	-	-	-	-	822,710
Net assets released from restrictions (Notes 2C and 14)	1,967,946	(1,967,946)	-	-	-	-	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	31,486,995	352,277	31,839,272	-	3,037,059	3,037,059	-	34,876,331
EXPENSES: (Note 2J)								
Program services	25,159,828	-	25,159,828	-	-	-	-	25,159,828
Management and general	4,987,376	-	4,987,376	1,131	-	1,131	-	4,988,507
Fundraising	1,007,562	-	1,007,562	-	-	-	-	1,007,562
TOTAL OPERATING EXPENSES	31,154,766	-	31,154,766	1,131	-	1,131	-	31,155,897
CHANGE IN NET ASSETS FROM OPERATIONS	332,229	352,277	684,506	(1,131)	3,037,059	3,035,928	-	3,720,434
NONOPERATING ACTIVITIES;								
Amortization of rent expense attributable to straight-lining (Note 2L)	36,488	-	36,488	-	-	-	-	36,488
TOTAL NONOPERATING ACTIVITIES	36,488	-	36,488	-	-	-	-	36,488
CHANGE IN NET ASSETS (Note 5)	368,717	352,277	720,994	(1,131)	3,037,059	3,035,928	-	3,756,922
Net Assets - Beginning of Year	4,073,566	1,138,707	5,212,273	246,930	-	246,930	-	5,459,203
NET ASSETS - END OF YEAR	$ 4,442,283	$ 1,490,984	$ 5,933,267	$ 245,799	$ 3,037,059	$ 3,282,858	$ -	$ 9,216,125

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, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	For the Year Ended June 30, 2018										
	Program Services						Support Services				
	Employment & Education Services	Housing Services	Alternatives to Incarceration	Licensed Behavioral Health Services	Other Programs	Total Program Services	Management and General	Fund-Raising	Total Support Services	Total 2018	Total 2017
Salaries	$ 1,996,247	$ 3,006,065	$ 1,958,360	$ 1,746,408	$ 5,190,847	$ 13,897,927	$ 2,950,412	$ 682,387	$ 3,632,799	$ 17,530,726	$ 15,559,111
Payroll taxes and fringe benefits (Note 11)	629,603	948,087	617,650	555,776	1,632,175	4,383,291	931,265	215,219	1,146,484	5,529,775	4,706,498
Total Personnel Costs	2,625,850	3,954,152	2,576,010	2,302,184	6,823,022	18,281,218	3,881,677	897,606	4,779,283	23,060,501	20,265,609
Professional fees (Note 2I)	418,240	121,677	57,967	47,927	1,017,804	1,663,615	400,969	45,131	446,100	2,109,715	2,180,175
Supplies, materials, printing, stationery and other	82,640	135,960	51,207	107,149	116,569	493,525	92,173	74,417	166,590	660,115	517,758
Staff training/conference activities	3,557	12,890	5,679	11,580	49,601	83,307	34,472	12,440	46,912	130,219	125,560
Client travel	275,429	22,387	102,409	122,998	39,083	562,306	-	-	-	562,306	546,248
Client rent	-	2,835,536	-	-	102,996	2,938,532	-	-	-	2,938,532	2,884,065
Client food, activities and other	58,044	149,062	11,005	60,335	45,887	324,333	-	-	-	324,333	308,629
Client stipends and incentives	595,776	59,986	9,606	26,483	48,875	740,726	-	-	-	740,726	515,004
Telephone	8,077	21,629	13,865	11,012	32,735	87,318	11,671	1,736	13,407	100,725	83,658
Occupancy (Notes 2L and 9B)	230,671	616,758	325,094	308,301	928,003	2,408,827	410,338	90,380	500,718	2,909,545	2,449,136
Internet and information technology services	19,875	21,506	20,842	25,564	59,542	147,329	33,297	19,940	53,237	200,566	218,033
Expensed furniture and equipment (Note 2E)	29,910	86,700	31,735	28,213	104,774	281,332	40,605	6,601	47,206	328,538	297,568
Interest and bank fees	-	50,343	-	-	-	50,343	203,385	-	203,385	253,728	99,296
Bad debts	-	-	-	-	-	-	-	-	-	-	91,260
Insurance	20,598	55,485	20,490	19,456	69,760	185,789	80,506	4,784	85,290	271,079	200,399
Depreciation and amortization (Notes 2E and 6)	50,986	300,083	50,019	44,605	132,580	578,273	75,357	17,429	92,786	671,059	373,499
TOTAL EXPENSES	$ 4,419,653	$ 8,444,154	$ 3,275,928	$ 3,115,807	$ 9,571,231	$ 28,826,773	$ 5,264,450	$ 1,170,464	$ 6,434,914	$ 35,261,687	$ 31,155,897

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, 2017

	Program Services						Support Services			
	Employment & Education Services	**Housing Services**	**Alternatives to Incarceration**	**Licensed Behavioral Health Services**	**Other Programs**	**Total Program Services**	**Management and General**	**Fund-Raising**	**Total Support Services**	**Total 2017**
Salaries	$ 1,735,675	$ 2,790,060	$ 1,865,535	$ 1,395,948	$ 4,250,035	$ 12,037,253	$ 2,930,650	$ 591,208	$ 3,521,858	$ 15,559,111
Payroll taxes and fringe benefits (Note 11)	530,267	852,394	569,941	426,478	1,298,432	3,677,512	848,365	180,621	1,028,986	4,706,498
Total Personnel Costs	2,265,942	3,642,454	2,435,476	1,822,426	5,548,467	15,714,765	3,779,015	771,829	4,550,844	20,265,609
Professional fees (Note 2I)	173,377	58,321	66,495	100,666	1,422,792	1,821,651	323,494	35,030	358,524	2,180,175
Supplies, materials, printing, stationery and other	59,385	133,976	43,470	96,437	93,366	426,634	38,644	52,480	91,124	517,758
Staff training/conference activities	3,292	11,268	5,185	17,755	17,562	55,062	60,223	10,275	70,498	125,560
Client travel	233,512	27,985	99,568	128,955	56,228	546,248	-	-	-	546,248
Client rent	-	2,790,166	-	-	93,899	2,884,065	-	-	-	2,884,065
Client food, activities and other	54,999	152,649	15,909	46,138	38,934	308,629	-	-	-	308,629
Client stipends and incentives	351,579	60,819	20,208	33,449	48,949	515,004	-	-	-	515,004
Telephone	5,151	19,892	12,924	10,623	25,109	73,699	8,478	1,481	9,959	83,658
Occupancy (Notes 2L and 9B)	309,711	219,074	345,843	337,289	772,138	1,984,055	381,652	83,429	465,081	2,449,136
Internet and information technology services	11,757	21,950	18,013	19,700	40,153	111,573	85,349	21,111	106,460	218,033
Expensed furniture and equipment (Note 2E)	18,235	97,846	35,388	28,538	75,082	255,089	29,808	12,671	42,479	297,568
Interest and bank fees	-	-	-	-	-	-	99,296	-	99,296	99,296
Bad debts	-	-	-	-	-	-	91,260	-	91,260	91,260
Insurance	16,886	53,804	20,958	20,522	62,228	174,398	20,937	5,064	26,001	200,399
Depreciation and amortization (Notes 2E and 6)	41,665	66,976	44,782	33,510	102,023	288,956	70,351	14,192	84,543	373,499
TOTAL EXPENSES	$ 3,545,491	$ 7,357,180	$ 3,164,219	$ 2,696,008	$ 8,396,930	$ 25,159,828	$ 4,988,507	$ 1,007,562	$ 5,996,069	$ 31,155,897

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (122,239)	$ 3,756,922
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	671,059	373,499
Bad debts	-	91,260
Accrued mortgage interest	50,342	708,698
Contribution received in acquisition of additional interest in Fortune L.P.	-	(3,037,059)
Subtotal	599,162	1,893,320
Changes in operating assets and liabilities:		
(Increase) or decrease in assets:		
Accounts receivable	(1,194,197)	(1,587,671)
Pledges receivable	(1,081,454)	(580,367)
Prepaid expenses and other assets	(59,152)	(75,769)
Security deposits	21,437	348
Increase or (decrease) in liabilities:		
Accounts payable and accrued expenses	82,251	(859,146)
Accrued salaries and related expenses	9,630	55,618
Accrued vacation	42,984	204,141
Deferred rent	(142,716)	(36,488)
Government refundable advances and reserves	943,958	255,166
Net Cash Used in Operating Activities	(778,097)	(730,848)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(607,847)	(492,326)
Decrease in restricted cash	1,811	-
Net Cash Used in Investing Activities	(606,036)	(492,326)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of bank line of credit	(5,250,000)	(2,675,000)
Proceeds from bank line of credit	6,715,000	3,900,000
Cash received in acquisition of additional interest in Fortune L.P.	-	32,901
Net Cash Provided by Financing Activities	1,465,000	1,257,901
NET INCREASE IN CASH AND CASH EQUIVALENTS	80,867	34,727
Cash and cash equivalents - beginning of year	404,071	369,344
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 484,938	$ 404,071
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 138,569	$ 46,683
Net Assets received through acquisition of additional interest in Fortune L.P.	$ -	$ 3,419,179

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. ("FIST"), Fortune Housing Development Fund Corporation ("HDFC"), Fortune L.P. and Fortune GP, Inc. ("GP"), collectively referred to as ("Fortune").

FSI, founded in 1967, 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.

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.

Fortune L.P., a New York limited partnership, was formed on June 21, 2000 to acquire, rehabilitate and manage and maintain a 34-unit, low-income housing projected located at 630 Riverside Drive, New York, New York. Effective June 17, 2017, a 99.99% limited partner interest in Fortune L.P. was assigned to HDFC. GP continues to hold a 0.01% general partner interest in Fortune LP. See Note 12 for further discussion of this transaction. As a result of this transaction, commencing on June 17, 2017, the accounts of Fortune L.P. are included in the accompanying consolidated financial statements.

GP was formed in 2000 pursuant to the Business Corporation Law of the State of New York and serves as the general partner in Fortune L.P. (see Note 10). GP's capital stock is owned by HDFC.

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 G.P.”) was formed pursuant to the Business Corporation Law of the State of New York and serves as the general partner to 625 West 140th Street L.P. (“West L.P.”) (see Note 12). WHDFC owns 75% of West G.P. and Harlem Congregations for Community Improvement, Inc. (“HCCI”), a New York not-for-profit corporation, owns 25% of West G.P.

FSI, HDFC and WHDFC 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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ***Basis of Consolidation*** - The consolidated financial statements have been prepared by consolidating the financial statements of FSI, HDFC, Fortune L.P and GP. All material intercompany transactions have been eliminated in consolidation

B. ***Basis of Accounting*** - Fortune prepares its consolidated financial statements using the accrual basis of accounting. Fortune adheres to accounting principles generally accepted in the United States of America (“U.S. GAAP”).

C. ***Net Assets*** - 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 ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ***Cash and Cash Equivalents*** - Cash and cash equivalents consists of highly liquid instruments purchased with maturities of three months or less. Restricted cash is not considered to be a part of cash and cash equivalents in the consolidated statements of cash flows.

E. ***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.

Management reviews its investments in property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. If an impairment loss has occurred, the amount of impairment loss is measured based on the excess of the asset's carrying value over its fair value. No impairment losses were recognized during the years ended June 30, 2018 and 2017.

F. ***Investments in Limited Partnerships*** - Investments in limited partnerships are stated at fair value as determined by the fund managers or general partners as described in Note 12.

G. ***Support Revenue and Accounts Receivable*** - Fortune 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.

Accounts receivable are reported as outstanding uncollected balances, reduced by an allowance for doubtful accounts. As of June 30, 2018 and 2017, Fortune determined that an allowance for uncollectible accounts in the amount of $308,713 and $266,736, 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. No allowance for doubtful accounts for pledges receivable was deemed necessary as of June 30, 2018 and 2017. The determination is based on Fortune's historical loss experience and considering the age of its receivables. In addition, if there are pledges receivable due greater than one year they are not discounted to present value, unless material. As of June 30, 2018 and 2017, no pledges are due in more than one year. 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.

H. **Government Refundable Advances and Reserves** - Government refundable advances and reserves represent advances received for future services and estimates of potential audit disallowances.

I. ***In-kind Contributions*** - Donated services are recognized in the consolidated financial statements if the services enhance or create nonfinancial assets or require specialized skills and are provided by individuals possessing those skills. Fortune receives donated legal services that are valued at the standard market rates that would have been incurred by Fortune to obtain such services. For the years ended June 30, 2018 and 2017, Fortune received donated legal services valued at $72,560 and $634,218, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. ***Functional Expenses*** - The cost of providing the various programs and other activities has been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting service benefited, as indicated in the consolidated statements of functional expenses.

K. ***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 disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

L. ***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 nonoperating item in the accompanying consolidated statements of activities. During the years ended June 30, 2018 and 2017, Fortune recorded an adjustment to rent expense to reflect its straight-line policy, which amounted to approximately $143,000 and $36,000, respectively, as a decrease in expense.

M. ***Reclassification*** - Certain line items in the June 30, 2017 consolidated financial statements have been reclassified to conform to the June 30, 2018 consolidated financial statement presentation. These changes had no impact on the change in net assets for the year ended June 30, 2017.

NOTE 3 - CONCENTRATIONS

A. Fortune receives major funding primarily from government sources to provide program services. For the years ended June 30, 2018 and 2017, such funding approximated 84% and 74%, respectively, of total public support and revenue excluding the contribution received relative to the acquisition of the additional interest in Fortune L.P. Accounts receivable is mostly from government sources, which, net of allowances, amounted to $7,625,148 and $6,430,951 as of June 30, 2018 and 2017, respectively.

B. Cash and cash equivalents and restricted cash that potentially subject Fortune to a concentration of credit risk include cash accounts with two banks that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits $250,000 by approximately $327,000 as of June 30, 2018. This excess includes outstanding checks.

NOTE 4 – ACCOUNTS RECEIVABLE

As of June 30, 2017, accounts receivable included approximately $847,000 of unbilled amounts due under two government contracts signed during fiscal year 2018. The contract period is retroactive and covers costs incurred for the related program during the year ended June 30, 2017. There were no such unbilled amounts as of June 30, 2018.

NOTE 5 – 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.

NOTE 5 – CHANGE IN NET ASSETS (Continued)

In addition, Fortune recognizes its rent expense on a straight-line basis, as described in Note 2, which resulted in lower rent expense under U.S. GAAP than what the actual cash outlay was to the landlord by approximately $143,000 and $36,000 for the years ended June 30, 2018 and 2017, 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 6 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30:

	2018	2017	Estimated Useful Lives
Land	$ 992,203	$ 992,203	
Leasehold improvements	2,969,167	2,586,758	8-15 years
Building and improvements	9,066,037	9,066,037	27.5-39 years
Office equipment and furniture	2,229,582	2,004,144	5-10 years
Vehicles	155,876	155,876	5 years
Total cost	15,412,865	14,805,018	
Less: accumulated depreciation and amortization	(5,117,300)	(4,446,241)	
Net book value	$ 10,295,565	$ 10,358,777	

Depreciation and amortization expense amounted to $671,059 and $373,499 for the years ended June 30, 2018 and 2017, respectively.

NOTE 7 - BANK LINE OF CREDIT PAYABLE

The bank line of credit payable consists of the following as of June 30:

	2018	2017	Interest Rate	Due Date
Bank line of credit expiring on December 31, 2019. The maximum borrowing is $5,000,000. 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, 2018 and 2017, the prime rate recognized by most major banking institutions was 5.00% and 4.25%, respectively.	$ 3,290,000	$ 1,825,000	Prime + 0.5%	December 31, 2019

As of January 29, 2019, the outstanding balance on the line of credit amounted to $2,695,000.

NOTE 8 - MORTGAGE PAYABLE

As discussed in Notes 1 and 12, the accounts of Fortune L.P. are included in the accompanying consolidated financial statements as a result of a 99.99% limited partnership interest in Fortune L.P. being assigned to Fortune HDFC, effective June 17, 2017. Fortune L.P. is obligated by a mortgage note held by the New York State Homeless Assistance Corporation (“HHAC”) in the amount of $5,048,046. The note accrues interest at 1% per year and all principal and interest (which would amount to approximately $6.6 million) are payable on July 28, 2030. The mortgage is collateralized by the low-income housing project property located at 630 Riverside Drive operated by Fortune L.P. The mortgage and accrued interest remains a liability until the end of the mortgage term, when a formal release would be issued by HHAC, assuming Fortune operates the property in accordance with the terms of the agreement.

Under the mortgage and other regulatory agreements, Fortune L.P. is required to maintain operating and replacement reserves. As of June 30, 2018 and 2017, Fortune L.P. holds an operating reserve of $321,315, and a replacement reserve of $42,363 and $44,174, respectively, all of which are reflected as restricted cash totaling $363,678 and $365,489 in the accompanying consolidated statements of financial position as of June 30, 2018 and 2017, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

A. 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.

B. 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, 2018:

2019	$ 1,929,000
2020	1,977,000
2021	2,027,000
2022	2,078,000
2023	1,408,000
	$ 9,419,000

Rent expense for the years ended June 30, 2018 and 2017 amounted to $1,755,383 and $1,649,154, respectively, and is included as part of 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 10 - INCOME TAXES

Management believes Fortune has no uncertain tax positions as of June 30, 2018 and 2017 in accordance with Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes,” which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

As a limited partnership, the taxable income and losses of Fortune L.P. pass through to, and are reportable by, the partners. As such, there is no provision for taxes for Fortune L.P.

NOTE 11 - 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 years ended June 30, 2018 and 2017 amounted to $258,125 and $223,250, respectively.

NOTE 12 - INVESTMENT IN LIMITED PARTNERSHIPS

A. 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. This project was allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42, which regulates the use of the project as to occupant eligibility, unit gross rent and other requirements. The project was required to meet the provisions of the regulations for 15 years in order to qualify for the tax credits. This tax credit compliance period terminated in 2016. 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.

Effective June 17, 2017, the former limited partner of Fortune L.P. assigned a 99.99% limited partnership interest to Fortune HDFC, for no consideration. As a result of this transaction, Fortune HDFC, which also owns all of the capital stock of GP, now controls Fortune L.P. Therefore, the accounts of Fortune L.P. are included in the accompanying consolidated financial statements commencing June 17, 2017. Fortune HDFC recorded an investment interest in Fortune L.P. based on the fair values of Fortune L.P.'s assets and liabilities at June 17, 2017, resulting in the recognition of a "contribution received in acquisition of additional interest in Fortune L.P." of $3,037,059 in the accompanying consolidated statement of activities for the year ended June 30, 2017.

The fair value of Fortune L.P.'s land, building and improvements was determined through a third-party appraisal of the property using the income capitalization approach. This approach involved performing a discounted cash flows analysis, with the significant Level 3 inputs being projected cash flows (annual net income and an estimated sales value at the end of the 15-year period covered under the regulatory agreement discussed in above and a discount rate ranging from 5.0% - 10.0%. The appraisal also factored in the requirement that the property be maintained as low-income housing for a 15-year period through 2030. The range of estimated fair values determined for the property was $8.9 million to $18.6 million and Fortune utilized the low end of this range ($8.9 million). Other than the property, the previous carrying values of Fortune L.P.'s assets and liabilities reasonably approximated their fair values at June 17, 2017.

Fortune L.P.'s assets, liabilities and equity as of June 30, 2017 are presented in the consolidated statement of financial position as of June 30, 2017. Fortune L.P.'s revenue and expenses from the June 17, 2017 acquisition date through June 30, 2017 are reflected in the consolidated statement of activities for the year ended June 30, 2017. If the acquisition had occurred at the beginning of fiscal year 2017, the accompanying consolidated statement of activities would include Fortune L.P.'s revenue of approximately $168,000 and a net loss of approximately $130,000 for the year ended June 30, 2017 in the unrestricted net asset category.

Pursuant to a regulatory agreement between Fortune L.P. and the New York City Housing Preservation and Development Agency, the property must be maintained as low-income housing for an additional 15-year period through 2030 after the tax compliance period that expired in 2016. The contribution received in the amount of $3,037,059, resulting from the Fortune L.P. acquisition, has been reflected in temporarily restricted net assets, in recognition of these restrictive requirements (see Note 14).

NOTE 12 - INVESTMENT IN LIMITED PARTNERSHIPS (Continued)

B. 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, 2018 and 2017, 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, 2018 and 2017, no amounts have been withdrawn from the guaranty reserve by the partnership to fund any operating deficits.

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, 2018 and 2017. 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, 2018 and 2017, 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 13 - RELATED-PARTY TRANSACTIONS

Social service fees of approximately $437,000 and $424,000 from West L.P. are reflected in other income in the accompanying consolidated statements of activities for the years ended June 30, 2018 and 2017, respectively.

West L.P. is considered related party as further described in Note 1.

NOTE 14 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of June 30:

	2018	2017
Purpose restricted	$ 1,965,023	$ 1,490,984
Time and purpose restricted – low-income housing tax credit partnership (see Note 12)	3,037,059	3,037,059
	$ 5,002,082	$ 4,528,043

Temporarily restricted net assets of $2,355,461 and $1,967,946 were released from restrictions for the years ended June 30, 2018 and 2017, respectively, as a result of donor-imposed purpose restrictions being met.

NOTE 15 - GOVERNMENT GRANTS AND FEES

Government grants and fees consists of the following for the years ended June 30:

	2018	2017
Government Grants:		
NYC Department of Corrections	$ 6,414,920	$ 5,189,375
NYC Mayor's Office Criminal Justice	5,544,491	4,418,298
NYC Department of Health and Mental Hygiene	3,012,267	2,826,419
NYS Division of Criminal Justice Services	1,979,853	1,683,596
NYS Office of Alcoholism and Substance Abuse Services	1,694,526	1,737,740
U.S. Department of Health and Human Services	1,680,557	1,336,369
Public Health Solutions	1,622,436	1,725,573
U.S. Department of Housing and Urban Development	1,333,837	1,269,023
NYS Office of Temporary and Disability Assistance	1,061,272	959,124
NYC Department of Youth and Community Development	632,197	547,730
NYS Department of Health	551,310	536,416
U.S. Department of Justice	371,538	149,932
NYS Dormitory Authority State of New York	271,225	-
NYS Education Department	243,183	237,881
NYC Human Resources Administration	229,799	281,843
Health Research Incorporated	184,601	188,042
U.S. Department of Agriculture	160,448	-
U.S. Environmental Protection Agency	92,484	93,932
NYC Department of Probation	91,021	314,079
U.S. Department of Labor	47,730	-
New York City Council	15,000	-
New York State Council on the Arts	8,028	-
Other	-	75,491
Total	27,242,723	23,570,863
Fees for Service:		
Medicaid	2,025,043	2,211,653
Total	2,025,043	2,211,653
Total Government Grants and Fees	$ 29,267,766	$ 25,782,516

NOTE 16 - SUBSEQUENT EVENTS

Management has evaluated for potential recognition and disclosure events subsequent to the date of the consolidated statement of financial position through January 29, 2019, the date the consolidated financial statements were available to be issued.