

**THE FORTUNE SOCIETY, INC.
AND AFFILIATES**



**Consolidated Financial Statements
(Together with Independent Auditors' Report)**

Years Ended June 30, 2021 and 2020

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

THE FORTUNE SOCIETY, INC. AND AFFILIATES

**CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

YEARS ENDED JUNE 30, 2021 AND 2020

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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 statements of financial position as of June 30, 2021 and 2020, 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 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 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.

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, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marks Paneth LLP

New York, NY
March 28, 2022

THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2021 AND 2020

	As of June 30, 2021				As of June 30, 2020			
	The Fortune Society, Inc.	Fortune HDFC	Eliminations	Consolidated Total 2021	Consolidated Total 2020	The Fortune Society, Inc.	Fortune HDFC	Eliminations
ASSETS								
Cash and cash equivalents (Notes 2D and 4B)	\$ 2,273,753	\$ 93,037	\$ -	\$ 2,366,790	\$ 1,955,610	\$ 1,852,313	\$ 103,297	\$ -
Restricted cash (Notes 2D and 10)	-	365,489	-	365,489	365,489	-	365,489	-
Accounts receivable, net (Notes 2F, 4A and 5)	11,992,520	20,338	-	12,012,858	10,781,305	10,764,268	17,037	-
Pledges receivable (Note 2F)	1,597,909	-	-	1,597,909	1,035,624	1,035,624	-	-
Prepaid expenses and other assets	712,022	38,460	-	750,482	461,572	418,246	43,326	-
Property and equipment, net (Notes 2E and 7)	2,353,257	8,152,632	-	10,505,889	10,280,798	1,943,361	8,337,437	-
Due from controlled entities	482,765	-	(482,765)	-	-	388,461	-	(388,461)
Security deposits	270,834	-	-	270,834	228,625	228,625	-	-
TOTAL ASSETS	\$ 19,683,060	\$ 8,669,956	\$ (482,765)	\$ 27,870,251	\$ 25,109,023	\$ 16,630,898	\$ 8,866,586	\$ (388,461)
LIABILITIES								
Accounts payable and accrued expenses	\$ 2,256,304	\$ 21,517	\$ -	\$ 2,277,821	\$ 1,338,721	\$ 1,298,849	\$ 39,872	\$ -
Accrued salaries and related expenses	684,322	-	-	684,322	651,449	651,449	-	-
Accrued vacation	798,651	-	-	798,651	942,373	942,373	-	-
Government refundable advances and reserves (Note 2G)	713,462	-	-	713,462	263,125	263,125	-	-
Due to controlled entities	-	482,765	(482,765)	-	-	-	388,461	(388,461)
Deferred rent (Notes 2K and 6)	797,801	-	-	797,801	1,212,074	1,212,074	-	-
Loans payable (Note 9)	5,031,448	-	-	5,031,448	5,158,582	5,158,582	-	-
Mortgage payable (Note 10)	-	5,048,046	-	5,048,046	5,048,046	-	5,048,046	-
Accrued mortgage interest (Note 10)	74,690	910,689	-	985,379	860,209	-	860,209	-
TOTAL LIABILITIES	10,356,678	6,463,017	(482,765)	16,336,930	15,474,579	9,526,452	6,336,588	(388,461)
COMMITMENTS AND CONTINGENCIES (Note 11)								
NET ASSETS (Note 2C)								
Without donor restrictions	6,384,729	(830,120)	-	5,554,609	4,605,682	5,112,743	(507,061)	-
With donor restrictions (Note 16)	2,941,653	3,037,059	-	5,978,712	5,028,762	1,991,703	3,037,059	-
TOTAL NET ASSETS	9,326,382	2,206,939	-	11,533,321	9,634,444	7,104,446	2,529,998	-
TOTAL LIABILITIES AND NET ASSETS	\$ 19,683,060	\$ 8,669,956	\$ (482,765)	\$ 27,870,251	\$ 25,109,023	\$ 16,630,898	\$ 8,866,586	\$ (388,461)

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, 2021
(With Comparative Totals for 2020)

	For the Year Ended June 30, 2021								
	The Fortune Society, Inc.			Fortune HDFC			Eliminations	Consolidated Total 2021	Consolidated Total 2020
	Without Donor Restrictions	With Donor Restrictions	The Fortune Society, Inc. Total	Without Donor Restrictions	With Donor Restrictions	Fortune HDFC Total			
OPERATING ACTIVITIES:									
PUBLIC SUPPORT AND REVENUE:									
Contributions and revenue from special events (Note 2F)	\$ 684,303	\$ -	\$ 684,303	\$ -	\$ -	\$ -	\$ -	\$ 684,303	\$ 1,411,203
Direct expenses from special events	<u>(126,590)</u>	<u>-</u>	<u>(126,590)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(126,590)</u>	<u>(227,517)</u>
Special events, net	557,713	-	557,713	-	-	-	-	557,713	1,183,686
Government grants and fees (Notes 2F, 4A, 6, 11A and 17)	34,128,817	-	34,128,817	-	-	-	-	34,128,817	34,125,582
Foundation grants, contributions and other (Note 2F)	2,687,140	2,987,357	5,674,497	-	-	-	-	5,674,497	3,347,671
In-kind contributions (Note 2H)	82,737	-	82,737	-	-	-	-	82,737	35,009
Other income (Note 15)	599,616	-	599,616	254,724	-	254,724	-	854,340	1,565,250
Net assets released from restrictions (Notes 2C and 16)	<u>2,037,407</u>	<u>(2,037,407)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>40,093,430</u>	<u>949,950</u>	<u>41,043,380</u>	<u>254,724</u>	<u>-</u>	<u>254,724</u>	<u>-</u>	<u>41,298,104</u>	<u>40,257,198</u>
EXPENSES: (Note 2I)									
Program services	33,552,321	-	33,552,321	534,883	-	534,883	-	34,087,204	30,815,951
Management and general	5,131,409	-	5,131,409	42,900	-	42,900	-	5,174,309	8,506,588
Fundraising	<u>551,987</u>	<u>-</u>	<u>551,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>551,987</u>	<u>642,963</u>
TOTAL OPERATING EXPENSES	<u>39,235,717</u>	<u>-</u>	<u>39,235,717</u>	<u>577,783</u>	<u>-</u>	<u>577,783</u>	<u>-</u>	<u>39,813,500</u>	<u>39,965,502</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>857,713</u>	<u>949,950</u>	<u>1,807,663</u>	<u>(323,059)</u>	<u>-</u>	<u>(323,059)</u>	<u>-</u>	<u>1,484,604</u>	<u>291,696</u>
NONOPERATING ACTIVITIES:									
Amortization of rent expense attributable to straight-lining (Notes 2K and 6)	<u>414,273</u>	<u>-</u>	<u>414,273</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>414,273</u>	<u>364,833</u>
TOTAL NONOPERATING ACTIVITIES	<u>414,273</u>	<u>-</u>	<u>414,273</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>414,273</u>	<u>364,833</u>
CHANGE IN NET ASSETS (Note 6)	1,271,986	949,950	2,221,936	(323,059)	-	(323,059)	-	1,898,877	656,529
Net Assets - Beginning of Year	<u>5,112,743</u>	<u>1,991,703</u>	<u>7,104,446</u>	<u>(507,061)</u>	<u>3,037,059</u>	<u>2,529,998</u>	<u>-</u>	<u>9,634,444</u>	<u>8,977,915</u>
NET ASSETS - END OF YEAR	<u>\$ 6,384,729</u>	<u>\$ 2,941,653</u>	<u>\$ 9,326,382</u>	<u>\$ (830,120)</u>	<u>\$ 3,037,059</u>	<u>\$ 2,206,939</u>	<u>\$ -</u>	<u>\$ 11,533,321</u>	<u>\$ 9,634,444</u>

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, 2020

	Year Ended June 30, 2020							Consolidated Total 2020
	The Fortune Society, Inc.			Fortune HDFC			Eliminations	
	Without Donor Restrictions	With Donor Restrictions	The Fortune Society, Inc. Total	Without Donor Restrictions	With Donor Restrictions	Fortune HDFC Total		
OPERATING ACTIVITIES:								
PUBLIC SUPPORT AND REVENUE:								
Contributions and revenue from special events (Note 2F)	\$ 1,411,203	\$ -	\$ 1,411,203	\$ -	\$ -	\$ -	\$ -	\$ 1,411,203
Direct expenses from special events	<u>(227,517)</u>	<u>-</u>	<u>(227,517)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(227,517)</u>
Special events, net	1,183,686	-	1,183,686	-	-	-	-	1,183,686
Government grants and fees (Notes 2F, 4A, 6, 11A and 17)	34,125,582	-	34,125,582	-	-	-	-	34,125,582
Foundation grants, contributions and other (Note 2F)	1,162,633	2,185,038	3,347,671	-	-	-	-	3,347,671
In-kind contributions (Note 2H)	35,009	-	35,009	-	-	-	-	35,009
Other income (Note 15)	1,171,397	-	1,171,397	393,853	-	393,853	-	1,565,250
Net assets released from restrictions (Notes 2C and 16)	<u>2,245,571</u>	<u>(2,245,571)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>39,923,878</u>	<u>(60,533)</u>	<u>39,863,345</u>	<u>393,853</u>	<u>-</u>	<u>393,853</u>	<u>-</u>	<u>40,257,198</u>
EXPENSES: (Note 2I)								
Program services	30,288,393	-	30,288,393	527,558	-	527,558	-	30,815,951
Management and general	8,413,830	-	8,413,830	92,758	-	92,758	-	8,506,588
Fundraising	<u>642,963</u>	<u>-</u>	<u>642,963</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>642,963</u>
TOTAL OPERATING EXPENSES	<u>39,345,186</u>	<u>-</u>	<u>39,345,186</u>	<u>620,316</u>	<u>-</u>	<u>620,316</u>	<u>-</u>	<u>39,965,502</u>
CHANGE IN NET ASSETS FROM OPERATIONS	<u>578,692</u>	<u>(60,533)</u>	<u>518,159</u>	<u>(226,463)</u>	<u>-</u>	<u>(226,463)</u>	<u>-</u>	<u>291,696</u>
NONOPERATING ACTIVITIES:								
Amortization of rent expense attributable to straight-lining (Notes 2K and 6)	364,833	-	364,833	-	-	-	-	364,833
TOTAL NONOPERATING ACTIVITIES	<u>364,833</u>	<u>-</u>	<u>364,833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>364,833</u>
CHANGE IN NET ASSETS (Note 6)	943,525	(60,533)	882,992	(226,463)	-	(226,463)	-	656,529
Net Assets - Beginning of Year	<u>4,169,218</u>	<u>2,052,236</u>	<u>6,221,454</u>	<u>(280,598)</u>	<u>3,037,059</u>	<u>2,756,461</u>	<u>-</u>	<u>8,977,915</u>
NET ASSETS - END OF YEAR	<u>\$ 5,112,743</u>	<u>\$ 1,991,703</u>	<u>\$ 7,104,446</u>	<u>\$ (507,061)</u>	<u>\$ 3,037,059</u>	<u>\$ 2,529,998</u>	<u>\$ -</u>	<u>\$ 9,634,444</u>

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, 2021
(With Comparative Totals for the Year Ended June 30, 2020)

	For the Year Ended June 30, 2021										
	Program Services					Support Services				Total 2021	Total 2020
	Employment & Education Services	Housing Services	Alternatives to Incarceration	Licensed Behavioral Health Services	Other Programs	Total Program Services	Management and General	Fundraising	Total Support Services		
Salaries	\$ 1,877,508	\$ 3,083,943	\$ 2,170,931	\$ 2,404,756	\$ 5,701,939	\$ 15,239,077	\$ 2,773,386	\$ 322,502	\$ 3,095,888	\$ 18,334,965	\$ 17,564,649
Payroll taxes and fringe benefits (Note 13)	595,448	978,067	688,507	762,664	1,808,360	4,833,046	925,161	102,281	1,027,442	5,860,488	5,279,188
Total Personnel Costs	2,472,956	4,062,010	2,859,438	3,167,420	7,510,299	20,072,123	3,698,547	424,783	4,123,330	24,195,453	22,843,837
Professional fees (Note 2H)	443,946	59,755	1,854,379	22,796	385,799	2,766,675	500,872	128,320	629,192	3,395,867	2,263,036
Supplies, materials, printing, stationery and other	20,265	77,712	43,112	28,662	67,320	237,071	67,844	21,647	89,491	326,562	483,623
Staff training/conference activities	6,192	6,551	3,495	11,070	25,591	52,899	82,319	2,739	85,058	137,957	110,063
Client travel	42,740	3,217	6,858	5,797	13,035	71,647	-	-	-	71,647	364,131
Client rent	4,250	3,550,538	446,250	29,999	42,281	4,073,318	-	-	-	4,073,318	3,532,768
Client food, activities and other	17,115	258,635	54,362	23,129	6,206	359,447	-	-	-	359,447	331,704
Client stipends and incentives	674,553	32,852	41,565	40	107,184	856,194	-	-	-	856,194	1,392,552
Telephone	12,421	11,177	33,188	9,956	226,732	293,474	13,051	1,696	14,747	308,221	195,117
Occupancy (Notes 2K and 11B)	339,616	590,196	1,033,938	306,929	963,497	3,234,176	425,188	67,111	492,299	3,726,475	3,465,904
Internet and information technology services	14,783	25,700	67,714	85,655	852,218	1,046,070	109,661	20,448	130,109	1,176,179	577,847
Expensed furniture and equipment	6,883	104,170	69,192	6,459	43,970	230,674	10,089	1,160	11,249	241,923	431,498
Interest and bank fees	-	51,066	-	-	-	51,066	145,122	-	145,122	196,188	234,344
Bad debts (Note 2F)	-	-	-	-	-	-	39,521	-	39,521	39,521	3,158,708
Insurance	21,079	57,232	46,125	18,832	61,929	205,197	25,683	4,113	29,796	234,993	205,122
Depreciation and amortization (Notes 2E and 7)	38,189	289,933	44,158	48,914	115,979	537,173	56,412	6,560	62,972	600,145	602,765
Subtotal	4,114,988	9,180,744	6,603,774	3,765,658	10,422,040	34,087,204	5,174,309	678,577	5,852,886	39,940,090	40,193,019
Less: Cost of direct benefit to donors	-	-	-	-	-	-	-	(126,590)	(126,590)	(126,590)	(227,517)
TOTAL EXPENSES	\$ 4,114,988	\$ 9,180,744	\$ 6,603,774	\$ 3,765,658	\$ 10,422,040	\$ 34,087,204	\$ 5,174,309	\$ 551,987	\$ 5,726,296	\$ 39,813,500	\$ 39,965,502

THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	For the Year Ended June 30, 2020									
	Program Services					Support Services				
	Employment & Education Services	Housing Services	Alternatives to Incarceration	Licensed Behavioral Health Services	Other Programs	Total Program Services	Management and General	Fundraising	Total Support Services	Total 2020
Salaries	\$ 1,766,788	\$ 2,922,904	\$ 1,819,281	\$ 1,764,678	\$ 5,894,069	\$ 14,167,720	\$ 3,032,485	\$ 364,444	\$ 3,396,929	\$ 17,564,649
Payroll taxes and fringe benefits (Note 13)	535,370	889,653	550,532	525,991	1,781,226	4,282,772	886,248	110,168	996,416	5,279,188
Total Personnel Costs	2,302,158	3,812,557	2,369,813	2,290,669	7,675,295	18,450,492	3,918,733	474,612	4,393,345	22,843,837
Professional fees (Note 2H)	483,766	84,292	506,716	57,257	453,458	1,585,489	554,409	123,138	677,547	2,263,036
Supplies, materials, printing, stationery and other	34,334	99,790	27,879	68,447	86,568	317,018	117,455	49,150	166,605	483,623
Staff training/conference activities	21,216	28,756	4,079	9,159	21,528	84,738	17,147	8,178	25,325	110,063
Client travel	218,005	9,358	32,201	67,364	37,203	364,131	-	-	-	364,131
Client rent	-	3,313,591	90,625	37,068	91,484	3,532,768	-	-	-	3,532,768
Client food, activities and other	68,934	149,603	43,629	49,133	20,405	331,704	-	-	-	331,704
Client stipends and incentives	1,058,089	74,011	43,977	12,775	203,700	1,392,552	-	-	-	1,392,552
Telephone	10,001	24,085	24,073	8,334	119,537	186,030	7,874	1,213	9,087	195,117
Occupancy (Notes 2K and 11B)	344,827	561,352	551,059	330,022	1,127,188	2,914,448	358,534	192,922	551,456	3,465,904
Internet and information technology services	11,670	103,015	61,710	81,677	237,203	495,275	77,664	4,908	82,572	577,847
Expensed furniture and equipment	16,629	111,969	176,814	18,833	77,525	401,770	25,541	4,187	29,728	431,498
Interest and bank fees	-	51,066	-	-	-	51,066	183,278	-	183,278	234,344
Bad debts (Note 2F)	-	-	-	-	-	-	3,158,708	-	3,158,708	3,158,708
Insurance	19,110	53,917	28,754	18,982	58,282	179,045	21,773	4,304	26,077	205,122
Depreciation and amortization (Notes 2E and 7)	38,144	286,647	39,279	38,100	127,255	529,425	65,472	7,868	73,340	602,765
Subtotal	4,626,883	8,764,009	4,000,608	3,087,820	10,336,631	30,815,951	8,506,588	870,480	9,377,068	40,193,019
Less: Cost of direct benefit to donors	-	-	-	-	-	-	-	(227,517)	(227,517)	(227,517)
TOTAL EXPENSES	\$ 4,626,883	\$ 8,764,009	\$ 4,000,608	\$ 3,087,820	\$ 10,336,631	\$ 30,815,951	\$ 8,506,588	\$ 642,963	\$ 9,149,551	\$ 39,965,502

**THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,898,877	\$ 656,529
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	600,145	602,765
Bad debts	39,521	3,158,708
Subtotal	2,538,543	4,418,002
Changes in operating assets and liabilities:		
(Increase) or decrease in assets:		
Accounts receivable	(1,271,074)	(3,269,844)
Pledges receivable	(562,285)	677,705
Prepaid expenses and other assets	(288,910)	7,645
Security deposits	(42,209)	(18,125)
Increase or (decrease) in liabilities:		
Accounts payable and accrued expenses	939,100	367,426
Accrued salaries and related expenses	32,873	215,893
Accrued vacation	(143,722)	183,553
Deferred rent	(414,273)	(364,833)
Government refundable advances and reserves	450,337	(1,268,519)
Accrued mortgage interest	125,170	50,481
Net Cash Provided by Operating Activities	1,363,550	999,384
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(825,236)	(690,947)
Net Cash Used in Investing Activities	(825,236)	(690,947)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of bank line of credit	(1,300,000)	(9,000,000)
Proceeds from bank line of credit	1,300,000	5,050,000
Proceeds from loans	316,809	5,158,582
Repayment of loans	(443,943)	-
Net Cash (Used in) Provided by Financing Activities	(127,134)	1,208,582
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	411,180	1,517,019
Cash, cash equivalents and restricted cash - beginning of year	2,321,099	804,080
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	\$ 2,732,279	\$ 2,321,099
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 73,445	\$ 102,393
The amounts reported as cash, cash equivalents and restricted cash above consist of the following amounts reported in the consolidated statements of financial position:		
Cash and cash equivalents	\$ 2,366,790	\$ 1,955,610
Restricted cash	365,489	365,489
Cash, cash equivalents and restricted cash	\$ 2,732,279	\$ 2,321,099

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

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The accompanying consolidated financial statements include the accounts of The Fortune Society, Inc. ("FSI"), 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. FSI 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 project 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 14 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 14). 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 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 14). 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.

West G.P. has determined that the limited partner has substantive participating rights and therefore, West G.P. has not consolidated the operations of West L.P.

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

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.

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 Fortune GP, Inc. 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 maintains its net assets under the following two classes:
- Without Donor Restrictions – represents resources available for support of Fortune's operations over which the Board has discretionary control.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- With Donor Restrictions - are assets that are subject to donor-imposed stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Fortune accounts for contributions received with donor restrictions, for which the donor-restricted purposes are met in the same period, in the net asset without donor restrictions class. In addition, contributions of unconditional promises to give with payments due in future periods are reported as with donor restrictions unless the donor expressly stipulates, or circumstances surrounding the receipt of the promise make clear that the donor intended them to be used to support activities of the current period.

- D. **Cash and Cash Equivalents** - Cash and cash equivalents consists of highly liquid instruments purchased with maturities of three months or less, except for restricted cash held in restricted and operating reserve accounts.
- 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, 2021 and 2020.

- F. **Support Revenue and Accounts Receivable** - Principal support for the programs operated by Fortune is derived directly from various federal, state and local governmental agencies. Laws and regulations governing Medicaid and Medicare programs are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from Medicaid and Medicare programs. There are occasions when funding source reimbursements for prior years are adjusted in the current period. Fortune records receivables and revenue when earned based on established rates or contracts for services provided 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. Revenue is reported at the amount that reflects the consideration to which Fortune expects to be entitled in exchange for providing the contracted services. Generally, Fortune bills the government entities, third-party payors and individuals after the services are performed or when Fortune has completed its portion of the contract.

Government and other grants and contributions are nonexchange transactions and accounted for under Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Made* (Topic 958). Government and other grants and contributions are recognized as revenue when barriers within the contract are overcome, and there is no right of return.

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. 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, 2021 and 2020.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021 and 2020, pledges due in more than one year amounted to \$281,361 and \$85,000, respectively. 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.

As of June 30, 2021, Fortune received conditional grants and contributions accounted for under ASU 2018-08 from government agencies in the aggregate amount of approximately \$39 million. Such grants have not been recognized in the accompanying consolidated financial statements as they are for future periods and will be recognized when contract barriers are overcome. Such barriers include expending these funds in accordance with their budgets and agreements. If such services are not provided, the governmental entities are not obligated to disburse the funds allotted under the grants and contracts and Fortune may be required to return the funds already remitted.

Accounts receivable are reported as outstanding uncollected balances, reduced by an allowance for doubtful accounts. As of June 30, 2021 and 2020, Fortune determined that an allowance for uncollectible accounts in the amount of \$1,740,030 and \$1,536,646, 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. In addition, during 2020, FSI reserved 100% of the note receivable due from 625 West 140th Street LP. The gross note receivable amounted to \$2,039,390 as of June 30, 2021 and 2020.

The direct costs of special events include expenses for the benefit of the donor and are included net of contributions and revenue from special events in the accompanying consolidated statements of activities. For example, meals and facilities rental are considered direct costs of special events.

- G. **Government Refundable Advances and Reserves** - Government refundable advances and reserves represent advances received for future services and estimates of potential audit disallowances.
- H. **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, 2021 and 2020, Fortune received donated legal services valued at \$82,737 and \$35,009, respectively.
- I. **Functional Expenses** - The costs of providing various programs and other activities of Fortune have been summarized on a functional basis in the consolidated statements of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:
- Salaries and wages, benefits, and payroll taxes are allocated based on estimates of time and effort.
 - Occupancy, information technology, insurance, depreciation and amortization, office expenses, and other expenses are allocated, when appropriate, on the basis of employee headcount for each program and supporting activity.
 - Client food and related expenses are allocated on the basis of meals served.

The basis on which costs are allocated are evaluated annually, or more often when new programs are added or employee headcount changes significantly. Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of Fortune.

- J. **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.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. **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 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, 2021 and 2020, Fortune recorded an adjustment to rent expense to reflect its straight-line policy, which amounted to approximately \$414,000 and \$365,000, respectively, as a decrease in expense.

NOTE 3 - LIQUIDITY AND AVAILABILITY OF RESOURCES

Fortune regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Fortune has various sources of liquidity at its disposal, including cash and cash equivalents, receivables and line of credit that provides funding for operations as needed. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Fortune considers all expenditures related to its ongoing activities. In addition to financial assets available to meet general expenditures over the next 12 months, Fortune expects and anticipates collecting sufficient revenue to cover general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, include the following as of June 30:

	2021	2020
Cash and cash equivalents	\$ 2,366,790	\$ 1,955,610
Accounts receivable, net	12,012,858	10,781,305
Pledges receivable due in one year	1,316,548	950,624
	\$ 15,696,198	\$ 13,687,539

In addition, Fortune has a line of credit totaling \$5,000,000 with a financial institution (Note 8), which can be drawn upon as needed. As of June 30, 2021 and 2020, the line of credit had no outstanding balance.

NOTE 4 - CONCENTRATIONS

A. Fortune receives major funding primarily from government sources to provide program services. For the years ended June 30, 2021 and 2020, such funding approximated 83% and 85%, respectively, of total public support and revenue. Accounts receivable is mostly from government sources, which, net of allowances, amounted to \$11,668,564 and \$10,108,835 as of June 30, 2021 and 2020, 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 of \$250,000 by approximately \$2,304,000 and \$1,920,000 as of June 30, 2021 and 2020, respectively. This excess includes outstanding checks.

NOTE 5 - ACCOUNTS RECEIVABLE

As of June 30, 2021 and 2020, accounts receivable included approximately \$3,805,000 and \$0, respectively, of unbilled amounts due under government contracts signed during fiscal year 2021. The contract period is retroactive and covers costs incurred for the related program during the year ended June 30, 2021.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 6 - CHANGE IN NET ASSETS

Under U.S. GAAP, nonprofit organizations are required to reflect unconditional contribution revenue in the year received or pledged despite the fact that, at times, certain of these contributions are donor 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 2K, which resulted in lower rent expense under U.S. GAAP than what the actual cash outlay was to the landlord by approximately \$414,000 and \$365,000 for the years ended June 30, 2021 and 2020, respectively.

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 7 - PROPERTY AND EQUIPMENT

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

	<u>2021</u>	<u>2020</u>	<u>Estimated Useful Lives</u>
Land	\$ 992,203	\$ 992,203	
Leasehold improvements	3,727,838	3,564,086	8-15 years
Building and improvements	9,066,037	9,066,037	27.5-39 years
Office equipment and furniture	2,767,845	2,465,792	5-10 years
Vehicles	155,876	155,876	5 years
Construction in progress	<u>724,656</u>	<u>365,225</u>	
Total cost	17,434,455	16,609,219	
Less: accumulated depreciation and amortization	<u>(6,928,566)</u>	<u>(6,328,421)</u>	
Net book value	<u>\$ 10,505,889</u>	<u>\$ 10,280,798</u>	

Depreciation and amortization expense amounted to \$600,145 and \$602,765 for the years ended June 30, 2021 and 2020, respectively.

Construction in progress consists of initial costs related to the Castle III project with estimated cost of completion of approximately \$40 million and an estimated completion date of March 31, 2024. Fortune plans on funding the project through various financing options including, but not limited to, Low Income Tax Credits, funding from the Homeless Housing and Assistance Program, the Supportive Housing Opportunities Program and conventional loans.

NOTE 8 - BANK LINE OF CREDIT PAYABLE

Fortune has a revolving line of credit with a bank with a maximum borrowing limit of \$5,000,000, interest rate of Prime rate plus .5% and expiration date of December 21, 2022. 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, 2021 and 2020, the prime rate recognized by most major banking institutions was 3.25%. As of June 30, 2021 and 2020, there were no borrowings on the line of credit. As of March 28, 2022, there were no outstanding borrowings on the line of credit.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 9 – LOANS PAYABLE

- A. On March 27, 2020, in response to COVID-19, the federal government passed the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). Among many other provisions, to help businesses retain employees, the CARES Act provides relief to qualifying businesses through a program called the Paycheck Protection Program (“PPP”). Participating in the PPP enables the business to obtain a loan from the Small Business Administration (“SBA”). If the proceeds from the loan are used for specified purposes, some or all of the loan can be forgiven.

FSI applied for this loan through an SBA authorized lender. The loan, amounting to \$3,863,500, was approved on April 18, 2020 and funded on April 20, 2020. If the forgiveness is not approved, the loan bears interest at a rate of 1% and matures on April 18, 2022. Accrued interest on the loan amounted to \$46,252 and \$7,617 for the years ended June 30, 2021 and 2020, respectively.

FSI is guided by FASB Accounting Standards Codification (“ASC”) Topic 470 “Debt.” Based on the guidance in FASB ASC 470, the loan would remain recorded as a liability until it is in part or wholly forgiven and legal release is received or the entity pays off the loan. Once the loan is forgiven in part or wholly, and legal release is received, FSI will reduce the liability by the amount forgiven and record a gain on extinguishment.

- B. In December 2019, FSI obtained an emergency loan of \$443,943 from the Fund for the City of New York for the sole purpose of covering operating expenses pending receipt of funds from the Mayor’s Office of Criminal Justice. The loan was paid on August 5, 2020.
- C. On January 27, 2020, Leviticus 25:23 Alternative Fund, Inc. confirmed its commitment to FSI to extend a predevelopment loan of \$1,000,000, which will support the new construction of Castle III, a 68,000 sq. ft. affordable housing building located in East Harlem, that will provide 79 supportive and affordable apartments. The loan bears interest at a rate of 5.26% per annum, fixed for the entire loan term. The term of the loan will commence on the closing date of the loan and will end on the earlier to occur of the (i) closing of construction financing on Castle III, or (ii) the third anniversary of the first day of the first month following the closing date. As of June 30, 2021 and 2020, FSI has received a total of \$612,948 and \$296,139 respectively from the loan.
- D. In October 2019, FSI obtained a loan amounting to \$515,000 from Enterprise Community Partners, Inc. for predevelopment expenses associated with Castle III. The loan bears simple interest at a rate of 4% per annum and matures on the last calendar day of the month of the thirty-sixth month anniversary of the date of the promissory note.
- E. In December 2019, FSI was approved for a \$120,000 recoverable grant from Deutsche Bank. As of June 30, 2021, \$40,000 was received by FSI and recorded as a loan payable to Deutsche Bank. The recoverable grant will be repaid in three equal installments beginning in fiscal 2022, without interest. Imputed interest was not recorded since it was immaterial to the consolidated financial statements.

Future annual principal payments are as follows for the years ending after June 31, 2021:

2022	\$	4,398,500
2023		20,000
2024		-
2025		-
2026		-
Thereafter		<u>612,948</u>
	\$	<u>5,031,448</u>

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 10 - MORTGAGE PAYABLE

As discussed in Notes 1 and 14, 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 Housing and 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) is 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 remain 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 both June 30, 2021 and 2020, Fortune L.P. holds an operating reserve of \$321,315, and a replacement reserve of \$44,174, respectively, all of which are reflected as restricted cash totaling \$365,489 in the accompanying consolidated statements of financial position as of both June 30, 2021 and 2020.

NOTE 11 - 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, 2021:

2022	\$ 2,078,000
2023	<u>1,408,000</u>
	<u>\$ 3,486,000</u>

Rent expense for the years ended June 30, 2021 and 2020, amounted to \$2,027,122 and \$1,977,500, 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.

- C. Fortune is a party to various lawsuits or complaints generally arising in the ordinary course of business. Fortune believes it has adequate insurance to cover any material damages and, accordingly, such litigation will not have a material adverse effect on its financial condition.
- D. The COVID-19 pandemic remains an evolving situation. The extent of the impact of COVID-19 on Fortune’s business and financial results will depend on future developments, including the duration and spread of the outbreak. Due to the changing business environment, unprecedented market volatility, and other circumstances resulting from the COVID-19 pandemic, Fortune is currently unable to fully determine the extent of COVID-19’s impact on its operations in future periods. Fortune’s performance in future periods will be heavily influenced by the timing, length, and intensity of the economic recoveries in the United States. Fortune continues to monitor evolving economic and general business conditions and the actual and potential impacts on their financial position and results of operations.

NOTE 12 - INCOME TAXES

Management believes Fortune has no uncertain tax positions as of June 30, 2021 and 2020 in accordance with FASB 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.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 - 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, 2021 and 2020, amounted to \$250,250 and \$239,875, respectively.

NOTE 14 - INVESTMENTS 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 HDFC, for no consideration. As a result of this transaction, 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. 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 2017.

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 2031 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 net assets with donor restrictions, in recognition of these restrictive requirements (see Note 16).

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, 2021 and 2020, West G.P.'s investment in West L.P. is accounted for under the equity method and 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, 2021 and 2020, no amounts have been withdrawn from the guaranty reserve by the partnership to fund any operating deficits.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 - INVESTMENTS IN LIMITED PARTNERSHIPS (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 net assets without restrictions. 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, 2021 and 2020. 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, 2020, management deemed the note receivable balance to be uncollectible and provided a 100% allowance.

- C. 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 15 - RELATED-PARTY TRANSACTIONS

Social service fees of approximately \$477,500 and \$464,000 from West L.P. are reflected in other income in the accompanying consolidated statements of activities for the years ended June 30, 2021 and 2020, respectively.

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

NOTE 16 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Time and purpose restricted	\$ 2,941,653	\$ 1,991,703
Time and purpose restricted – low-income housing tax credit partnership (see Note 14)	<u>3,037,059</u>	<u>3,037,059</u>
	<u>\$ 5,978,712</u>	<u>\$ 5,028,762</u>

Net assets with donor restrictions of \$2,037,407 and \$2,245,571 were released from restrictions for the years ended June 30, 2021 and 2020, respectively, as a result of donor-imposed purpose restrictions being met.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 17 - GOVERNMENT GRANTS AND FEES

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

	<u>2021</u>	<u>2020</u>
Government Grants:		
NYC Mayor's Office Criminal Justice	\$ 11,468,318	\$ 11,814,213
NYC Department of Corrections	3,992,523	4,789,958
NYC Department of Health and Mental Hygiene	3,396,121	3,478,508
NYS Office of Alcoholism and Substance Abuse Services	2,244,876	2,229,661
NYS Department of Health	1,968,240	663,961
NYS Division of Criminal Justice Services	1,484,967	2,186,352
U.S. Department of Housing and Urban Development	1,429,682	1,308,909
Public Health Solutions	1,425,461	1,371,784
NYS Office of Temporary and Disability Assistance	1,160,331	1,204,015
U.S. Department of Health and Human Services	792,935	865,679
NYC Health and Hospitals Corporation	550,000	-
NYC Department of Youth and Community Development	425,744	497,082
NYC Human Resources Administration	279,726	269,881
Health Research Incorporated	200,798	180,776
U.S. Environmental Protection Agency	151,690	48,310
NYS Dormitory Authority State of New York	96,950	-
NYC Small Business Services	86,021	97,906
NYC Department of Probation	85,619	83,417
U.S. Department of Agriculture	21,766	100,295
New York State Council on the Arts	12,903	10,681
U.S. Department of Justice	12,500	163,097
NYS Dept of Environmental Conservation	10,038	-
New York City Council	10,000	25,000
NYS Department of Labor	8,325	85,289
Total	<u>31,315,534</u>	<u>31,474,774</u>
Fees for Service:		
Medicaid	2,695,888	2,184,137
Healthfirst (NYC)	117,395	466,671
Total	<u>2,813,283</u>	<u>2,650,808</u>
Total Government Grants and Fees	<u>\$ 34,128,817</u>	<u>\$ 34,125,582</u>

NOTE 18 - SUBSEQUENT EVENTS

Management has evaluated for potential recognition and disclosure events subsequent to the date of the consolidated statement of financial position through March 28, 2022, the date the consolidated financial statements were available to be issued.