THE FORTUNE SOCIETY, INC.
AND AFFILIATES

Consolidated Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2022 and 2021

THE FORTUNE SOCIETY, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Fortune Society, Inc. and Affiliates
Long Island City, NY

Opinion

We have audited the consolidated financial statements of The Fortune Society, Inc. and Affiliates (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on 2021 Consolidated Financial Statements

The consolidated financial statements of The Fortune Society, Inc. and Affiliates as of and for the year ended June 30, 2021, were audited by another auditor whose report dated March 28, 2022, expressed an unmodified opinion on those consolidated statements.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Mayer Hoffman McCann CPAs

New York, NY
March 30, 2023

THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2022 AND 2021

	As of June 30, 2022				As of June 30, 2021			
	The Fortune Society, Inc.	Fortune HDFC	Eliminations	Consolidated Total 2022	Consolidated Total 2021	The Fortune Society, Inc.	Fortune HDFC	Eliminations
ASSETS								
Cash and cash equivalents (Notes 2D and 4B)	$ 3,503,310	$ 66,320	$ -	$ 3,569,630	$ 2,366,790	$ 2,273,753	$ 93,037	$ -
Restricted cash (Notes 2D and 10)	-	365,489	-	365,489	365,489	-	365,489	-
Accounts receivable, net (Notes 2F, 4A and 5)	19,511,900	5,417	-	19,517,317	12,012,858	11,992,520	20,338	-
Pledges receivable (Note 2F)	3,181,452	-	-	3,181,452	1,597,909	1,597,909	-	-
Prepaid expenses and other assets	931,985	35,201	-	967,186	750,482	712,022	38,460	-
Property and equipment, net (Notes 2E and 7)	5,573,806	7,971,190	-	13,544,996	10,505,889	2,353,257	8,152,632	-
Due from controlled entities	622,308	-	(622,308)	-	-	482,765	-	(482,765)
Security deposits	456,384	-	-	456,384	270,834	270,834	-	-
TOTAL ASSETS	$ 33,781,145	$ 8,443,617	$ (622,308)	$ 41,602,454	$ 27,870,251	$ 19,683,060	$ 8,669,956	$ (482,765)
LIABILITIES								
Accounts payable and accrued expenses	$ 3,501,699	$ 13,715	$ -	$ 3,515,414	$ 2,277,821	$ 2,256,304	$ 21,517	$ -
Accrued salaries and related expenses	1,096,519	-	-	1,096,519	684,322	684,322	-	-
Accrued vacation	1,078,257	-	-	1,078,257	798,651	798,651	-	-
Government refundable advances and reserves (Note 2G)	1,521,228	-	-	1,521,228	713,462	713,462	-	-
Due to controlled entities	-	622,308	(622,308)	-	-	-	482,765	(482,765)
Deferred rent (Notes 2K and 6)	344,977	-	-	344,977	797,801	797,801	-	-
Loans payable (Note 9)	2,376,665	-	-	2,376,665	5,031,448	5,031,448	-	-
Mortgage payable (Note 10)	-	5,048,046	-	5,048,046	5,048,046	-	5,048,046	-
Accrued mortgage interest (Note 10)	97,934	969,067	-	1,067,001	985,379	74,690	910,689	-
TOTAL LIABILITIES	10,017,279	6,653,136	(622,308)	16,048,107	16,336,930	10,356,678	6,463,017	(482,765)
COMMITMENTS AND CONTINGENCIES (Note 11)								
NET ASSETS (Note 2C)								
Without donor restrictions	18,138,406	(1,246,578)	-	16,891,828	5,554,609	6,384,729	(830,120)	-
With donor restrictions (Note 16)	5,625,460	3,037,059	-	8,662,519	5,978,712	2,941,653	3,037,059	-
TOTAL NET ASSETS	23,763,866	1,790,481	-	25,554,347	11,533,321	9,326,382	2,206,939	-
TOTAL LIABILITIES AND NET ASSETS	$ 33,781,145	$ 8,443,617	$ (622,308)	$ 41,602,454	$ 27,870,251	$ 19,683,060	$ 8,669,956	$ (482,765)

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, 2022
(With Comparative Totals for 2021)

	For the Year Ended June 30, 2022								
	The Fortune Society, Inc.			Fortune HDFC					
	Without Donor Restrictions	With Donor Restrictions	The Fortune Society, Inc. Total	Without Donor Restrictions	With Donor Restrictions	Fortune HDFC Total	Eliminations	Consolidated Total 2022	Consolidated Total 2021
OPERATING ACTIVITIES:									
PUBLIC SUPPORT AND REVENUE:									
Contributions and revenue from special events (Note 2F)	$ 1,204,491	$ -	$ 1,204,491	$ -	$ -	$ -	$ -	$ 1,204,491	$ 684,303
Direct expenses from special events	(183,295)	-	(183,295)	-	-	-	-	(183,295)	(126,590)
Special events, net	1,021,196	-	1,021,196	-	-	-	-	1,021,196	557,713
Government grants and fees (Notes 2F, 4A, 6, 11A and 17)	36,580,622	-	36,580,622	-	-	-	-	36,580,622	34,128,817
Foundation grants, contributions and other (Note 2F)	12,101,758	4,807,100	16,908,858	-	-	-	-	16,908,858	5,674,497
In-kind contributions (Note 2H)	93,126	-	93,126	-	-	-	-	93,126	82,737
Forgiveness of Paycheck Protection Program loan payable (Note 9)	3,863,500	-	3,863,500	-	-	-	-	3,863,500	-
Other income (Note 15)	835,533	-	835,533	198,229	-	198,229	-	1,033,762	854,340
Net assets released from restrictions (Notes 2C and 16)	2,123,293	(2,123,293)	-	-	-	-	-	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	56,619,028	2,683,807	59,302,835	198,229	-	198,229	-	59,501,064	41,298,104
EXPENSES: (Note 2I)									
Program services	37,364,058	-	37,364,058	536,751	-	536,751	-	37,900,809	34,087,204
Management and general	7,015,573	-	7,015,573	77,936	-	77,936	-	7,093,509	5,174,309
Fundraising	938,544	-	938,544	-	-	-	-	938,544	551,987
TOTAL OPERATING EXPENSES	45,318,175	-	45,318,175	614,687	-	614,687	-	45,932,862	39,813,500
CHANGE IN NET ASSETS FROM OPERATIONS	11,300,853	2,683,807	13,984,660	(416,458)	-	(416,458)	-	13,568,202	1,484,604
NONOPERATING ACTIVITIES:									
Amortization of rent expense attributable to straight-lining (Notes 2K and 6)	452,824	-	452,824	-	-	-	-	452,824	414,273
TOTAL NONOPERATING ACTIVITIES	452,824	-	452,824	-	-	-	-	452,824	414,273
CHANGE IN NET ASSETS (Note 6)	11,753,677	2,683,807	14,437,484	(416,458)	-	(416,458)	-	14,021,026	1,898,877
Net Assets - Beginning of Year	6,384,729	2,941,653	9,326,382	(830,120)	3,037,059	2,206,939	-	11,533,321	9,634,444
NET ASSETS - END OF YEAR	$ 18,138,406	$ 5,625,460	$ 23,763,866	$ (1,246,578)	$ 3,037,059	$ 1,790,481	$ -	$ 25,554,347	$ 11,533,321

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

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

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, 2022
(With Comparative Totals for the Year Ended June 30, 2021)

	For the Year Ended June 30, 2022										
	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 2022	Total 2021
Salaries	$ 1,854,017	$ 4,330,275	$ 2,965,906	$ 2,321,382	$ 5,039,340	$ 16,510,920	$ 3,987,907	$ 527,756	$ 4,515,663	$ 21,026,583	$ 18,334,965
Payroll taxes and fringe benefits (Note 13)	587,447	1,367,450	939,056	741,975	1,592,411	5,228,339	1,206,659	167,119	1,373,778	6,602,117	5,860,488
Total Personnel Costs	2,441,464	5,697,725	3,904,962	3,063,357	6,631,751	21,739,259	5,194,566	694,875	5,889,441	27,628,700	24,195,453
Professional fees (Note 2H)	531,145	167,353	2,095,013	79,216	634,640	3,507,367	864,236	225,365	1,089,601	4,596,968	3,395,867
Supplies, materials, printing, stationery and other	67,060	92,363	79,989	36,970	81,567	357,949	62,847	86,211	149,058	507,007	326,562
Staff training/conference activities	19,376	23,671	16,202	14,008	105,236	178,493	93,568	3,086	96,654	275,147	137,957
Client travel	184,951	2,366	27,705	19,489	17,678	252,189	-	-	-	252,189	71,647
Client rent	1	4,286,276	-	-	38,830	4,325,107	-	-	-	4,325,107	4,073,318
Client food, activities and other	34,760	420,371	48,007	52,970	57,901	614,009	-	-	-	614,009	359,447
Client stipends and incentives	1,014,945	25,546	75,090	2,815	131,436	1,249,832	-	-	-	1,249,832	856,194
Telephone	7,557	10,543	89,750	8,789	179,506	296,145	10,412	2,319	12,731	308,876	308,221
Occupancy (Notes 2K and 11B)	150,501	768,797	1,044,245	321,044	1,028,334	3,312,921	473,990	68,297	542,287	3,855,208	3,726,475
Internet and information technology services	25,808	52,841	105,844	87,174	429,645	701,312	147,257	22,357	169,614	870,926	1,176,179
Expensed furniture and equipment	13,678	172,993	73,996	12,396	55,120	328,183	31,689	2,405	34,094	362,277	241,923
Interest and bank fees	-	50,480	-	-	-	50,480	62,304	-	62,304	112,784	196,188
Bad debt (Note 2F)	-		-	-	-	-	29,435	-	29,435	29,435	39,521
Insurance	106,554	112,886	64,738	22,656	76,501	383,335	31,428	4,647	36,075	419,410	234,993
Depreciation and amortization (Notes 2E and 7)	43,136	320,806	68,993	54,123	117,170	604,228	91,777	12,277	104,054	708,282	600,145
Subtotal	4,640,936	12,205,017	7,694,534	3,775,007	9,585,315	37,900,809	7,093,509	1,121,839	8,215,348	46,116,157	39,940,090
Less: Cost of direct benefit to donors	-	-	-	-	-	-	-	(183,295)	(183,295)	(183,295)	(126,590)
TOTAL EXPENSES	$ 4,640,936	$ 12,205,017	$ 7,694,534	$ 3,775,007	$ 9,585,315	$ 37,900,809	$ 7,093,509	$ 938,544	$ 8,032,053	$ 45,932,862	$ 39,813,500

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

	For the Year Ended June 30, 2021									
	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 2021
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
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
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
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
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
Staff training/conference activities	6,192	6,551	3,495	11,070	25,591	52,899	82,319	2,739	85,058	137,957
Client travel	42,740	3,217	6,858	5,797	13,035	71,647	-	-	-	71,647
Client rent	4,250	3,550,538	446,250	29,999	42,281	4,073,318	-	-	-	4,073,318
Client food, activities and other	17,115	258,635	54,362	23,129	6,206	359,447	-	-	-	359,447
Client stipends and incentives	674,553	32,852	41,565	40	107,184	856,194	-	-	-	856,194
Telephone	12,421	11,177	33,188	9,956	226,732	293,474	13,051	1,696	14,747	308,221
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
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
Expensed furniture and equipment	6,883	104,170	69,192	6,459	43,970	230,674	10,089	1,160	11,249	241,923
Interest and bank fees	-	51,066	-	-	-	51,066	145,122	-	145,122	196,188
Bad debt (Note 2F)	-	-	-	-	-	-	39,521	-	39,521	39,521
Insurance	21,079	57,232	46,125	18,832	61,929	205,197	25,683	4,113	29,796	234,993
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
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
Less: Cost of direct benefit to donors	-	-	-	-	-	-	-	(126,590)	(126,590)	(126,590)
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

THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 14,021,026	$ 1,898,877
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	708,282	600,145
Forgiveness of Paycheck Protection Program loan payable	(3,863,500)	-
Bad debt	29,435	39,521
Subtotal	10,895,243	2,538,543
Changes in operating assets and liabilities:		
(Increase) or decrease in assets:		
Accounts receivable	(7,533,894)	(1,271,074)
Pledges receivable	(1,583,543)	(562,285)
Prepaid expenses and other assets	(216,704)	(288,910)
Security deposits	(185,550)	(42,209)
Increase or (decrease) in liabilities:		
Accounts payable and accrued expenses	1,237,593	939,100
Accrued salaries and related expenses	412,197	32,873
Accrued vacation	279,606	(143,722)
Deferred rent	(452,824)	(414,273)
Government refundable advances and reserves	807,766	450,337
Accrued mortgage interest	81,622	125,170
Net Cash Provided by Operating Activities	3,741,512	1,363,550
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,747,389)	(825,236)
Net Cash Used in Investing Activities	(3,747,389)	(825,236)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments of bank line of credit	(4,000,000)	(1,300,000)
Proceeds from bank line of credit	4,000,000	1,300,000
Proceeds from loans	1,393,840	316,809
Repayment of loans	(185,123)	(443,943)
Net Cash Provided by (Used in) Financing Activities	1,208,717	(127,134)
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	1,202,840	411,180
Cash, cash equivalents and restricted cash - beginning of year	2,732,279	2,321,099
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	$ 3,935,119	$ 2,732,279
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 55,500	$ 73,445

The amounts reported as cash, cash equivalents and restricted cash above consist of the following amounts reported in the consolidated statements of financial position:

	2022	2021
Cash and cash equivalents	$ 3,569,630	$ 2,366,790
Restricted cash	365,489	365,489
Cash, cash equivalents and restricted cash	$ 3,935,119	$ 2,732,279

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

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

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

In October 2018, 1080 Washington Avenue Housing Development Fund Corporation (“1080 HDFC”) was formed for the purpose of developing and operating a housing project for persons of low income. The sole member of 1080 HDFC is FSI. The accounts of 1080 HDFC are immaterial to the accompanying consolidated financial statements and are, therefore, not included.

FSI, HDFC, WHDFC and 1080 HDFC have been granted exemption from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code and have been classified as organizations that are not private foundations.

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”).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.
- 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 acquired 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, 2022 and 2021.

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 non-exchange 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, 2022 and 2021.

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 in greater than one year, they are not discounted to present value, unless material. 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.

Pledges receivable are due as follows as of June 30:

	2022	2021
Due in less than one year	$ 1,995,491	$ 1,316,548
One to five years	1,185,961	281,361
	$ 3,181,452	$ 1,597,909

As of June 30, 2022, Fortune received conditional grants and contributions accounted for under ASU 2018-08 from government agencies in the aggregate amount of approximately $46 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, 2022 and 2021, Fortune determined that an allowance for uncollectible accounts in the amounts of $1,445,830 and $1,740,030, 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 debt 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, 2022 and 2021.

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, 2022 and 2021, Fortune received donated legal services valued at $93,126 and $82,737, respectively. These services were valued at fair value and used for general and administrative purposes.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 reporting period. Actual results could differ from those estimates.

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, 2022 and 2021, Fortune recorded an adjustment to rent expense to reflect its straight-line policy, which amounted to approximately $453,000 and $414,000, respectively, as a decrease in expense.

L. ***Recent Accounting Pronouncements*** - FASB ASU 2020-07, (*Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets)*, was adopted by Fortune for the year ended June 30, 2022. The core guidance in ASU 2020-07 is to increase transparency around contributed nonfinancial assets (also known as “gifts-in-kind”) received by the not-for- profit organizations, including transparency on how those assets are used and how they are valued. The adoption of ASU 2020-07 did not have an impact on Fortune’s consolidated financial statements.

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 a 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:

	2022	2021
Cash and cash equivalents	$ 3,569,630	$ 2,366,790
Accounts receivable, net	19,517,317	12,012,858
Pledges receivable due in one year	1,995,491	1,316,548
	$ 25,082,438	$ 15,696,196

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, 2022 and 2021, 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, 2022 and 2021, such funding approximated 62% and 83%, respectively, of total public support and revenue. Accounts receivable is mostly from government sources, which, net of allowances, amounted to $19,408,866 and $11,668,564, as of June 30, 2022 and 2021, 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 $3,765,000 and $2,304,000 as of June 30, 2022 and 2021, respectively. This excess includes outstanding checks.

NOTE 5 - ACCOUNTS RECEIVABLE

As of June 30, 2022 and 2021, accounts receivable included approximately $9,800,000 and $3,805,000, respectively, of unbilled amounts due under government contracts signed during fiscal years 2022 and 2021. The contract period is retroactive and covers costs incurred for the related program during the year ended June 30, 2022.

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 $453,000 and $414,000 for the years ended June 30, 2022 and 2021, 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:

	2022	2021	Estimated Useful Lives
Land	$ 992,203	$ 992,203	
Leasehold improvements	4,428,952	3,727,838	8-15 years
Building and improvements	9,066,037	9,066,037	27.5-39 years
Office equipment and furniture	3,601,725	2,767,845	5-10 years
Vehicles	214,193	155,876	5 years
Construction in progress	2,563,505	724,656	
Total cost	20,866,615	17,434,455	
Less: accumulated depreciation and amortization	(7,321,619)	(6,928,566)	
Net book value	$ 13,544,996	$ 10,505,889	

Depreciation and amortization expense amounted to $708,282 and $600,145 for the years ended June 30, 2022 and 2021, respectively. During the year ended June 30, 2022, Fortune disposed of fully depreciated assets amounting to $315,229. There were no such disposals in 2021.

Construction in progress consists of initial costs related to the Castle III project with an 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 Housing Tax Credits, funding from the Homeless Housing and Assistance Program, the Supportive Housing Opportunities Program and conventional loans.

On September 10, 2021, Fortune entered into an agreement for the purchase of a property in New York, NY for the Castle IV project. The total purchase price for the property is estimated at $11 million. As of June 30, 2022, Fortune made an initial deposit of $600,000. The closing date of the purchase is not yet set as of the date of this report.

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 31, 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, 2022 and 2021, the prime rate recognized by most major banking institutions was 3.25%. As of June 30, 2022 and 2021, there were no borrowings on the line of credit. As of March 30, 2023, there were no outstanding borrowings on the line of credit. Effective January 1, 2023, the line of credit was increased to $7,000,000 with a new expiration date of December 31, 2023.

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 $0 and $46,252 for the years ended June 30, 2022 and 2021, 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. FSI applied for and received full forgiveness on the loan in April 2022. Extinguishment of debt is reflected as other income in the accompanying consolidated statements of activities.

B. 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 maximum borrowing on the loan was increased by $880,000 in October 2021. The loan bears interest at a rate of 5.26% per annum on the original loan and 5.5% on the extended amount, 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 (i) the 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, 2022 and 2021, the outstanding balance amounted to $1,715,778 and $612,948, respectively.

C. 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-six month anniversary of the date of the promissory note. The loan was extended subsequent to year end, and the new maturity date is June 30, 2024 with an interest rate of 4.25%.

D. In December 2019, FSI was approved for a $120,000 recoverable grant from Deutsche Bank. As of June 30, 2022, $120,000 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 2023, without interest. Imputed interest was not recorded since it was immaterial to the consolidated financial statements.

Approximate future annual principal payments are as follows for the years ending after June 30, 2022:

2023	$ 1,436,000
2024	45,000
2025	45,000
2026	845,000
2027	5,000
Thereafter	-
	$ 2,376,000

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, 2022 and 2021, 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, 2022 and 2021.

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 March 2023. In October 2022, Fortune executed a lease extension agreement extending the current expiration date for another three years to March 31, 2026. Fortune is obligated for the following future annual rentals for the fiscal years ended after June 30, 2022:

2023	$	1,950,000
2024		2,178,000
2025		2,233,000
2026		1,706,000

Rent expense for the years ended June 30, 2022 and 2021, amounted to $2,170,688 and $2,027,122, 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.

NOTE 12 - INCOME TAXES

Management believes Fortune has no uncertain tax positions as of June 30, 2022 and 2021 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.

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 the years ended June 30, 2022 and 2021, amounted to $245,000 and $250,250, 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, 2022 and 2021, 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, 2022 and 2021, no amounts have been withdrawn from the guaranty reserve by the partnership to fund any operating deficits.

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, 2022 and 2021. 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, 2022 and 2021, 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 $491,900 and $477,500 from West L.P. are reflected in other income in the accompanying consolidated statements of activities for the years ended June 30, 2022 and 2021, 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:

	2022	2021
Time and purpose restricted	$ 5,625,460	$ 2,941,653
Time and purpose restricted – low-income housing tax credit partnership (see Note 14)	3,037,059	3,037,059
	$ 8,662,519	$ 5,978,712

Net assets with donor restrictions of $2,123,293 and $2,037,407 were released from restrictions for the years ended June 30, 2022 and 2021, respectively, as a result of donor-imposed purpose restrictions being met.

NOTE 17 - GOVERNMENT GRANTS AND FEES

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

	2022	2021
Government Grants:		
NYC Mayor's Office Criminal Justice	$ 15,887,033	$ 11,468,318
NYC Department of Corrections	2,635,313	3,992,523
NYC Department of Health and Mental Hygiene	3,648,510	3,396,121
NYS Office of Alcoholism and Substance Abuse Services	2,493,944	2,244,876
NYS Department of Health	1,165,336	1,968,240
NYS Division of Criminal Justice Services	1,714,116	1,484,967
U.S. Department of Housing and Urban Development	1,483,820	1,429,682
Public Health Solutions	1,157,794	1,425,461
NYS Office of Temporary and Disability Assistance	2,064,834	1,160,331
U.S. Department of Health and Human Services	538,230	792,935
NYC Health and Hospitals Corporation	600,000	550,000
NYC Department of Youth and Community Development	442,201	425,744
NYC Human Resources Administration	316,062	279,726
New York Offce of Children and Family Services	178,137	-
Health Research Incorporated	40,950	200,798
NYS Department of State	89,725	-
U.S. Environmental Protection Agency	-	151,690
NYS Dormitory Authority State of New York	-	96,950
NYC Small Business Services	78,323	86,021
NYC Department of Probation	77,897	85,619
U.S. Department of Agriculture	67,602	21,766
New York State Council on the Arts	13,681	12,903
U.S. Department of Justice	-	12,500
NYS Dept of Environmental Conservation	1,287	10,038
New York City Council	16,000	10,000
NYS Department of Labor	-	8,325
Total	34,710,795	31,315,534
Fees for Service:		
Medicaid	1,869,827	2,695,888
Healthfirst (NYC)	-	117,395
Total	1,869,827	2,813,283
Total Government Grants and Fees	$ 36,580,622	$ 34,128,817

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 30, 2023, the date the consolidated financial statements were available to be issued.