



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

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

Years Ended June 30, 2025 and 2024

THE FORTUNE SOCIETY, INC. AND AFFILIATES

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

YEARS ENDED JUNE 30, 2025 AND 2024

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CBIZ CPAs P.C.

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Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of The Fortune Society, Inc. and Affiliates (collectively, "Fortune"), which comprise the consolidated statements of financial position as of June 30, 2025 and 2024, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Fortune as of June 30, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Fortune and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Fortune'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 audits.
- 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 audits 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 Fortune'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 Fortune'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.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information as of and for the year ended June 30, 2025 (shown on pages 20 and 21) is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and the change in net assets of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CBIZ CPAs P.C.

New York, NY
March 26, 2026

THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2025 AND 2024

| | 2025 | 2024 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents (Notes 2E and 5B) | \$ 4,179,102 | \$ 1,757,187 |
| Government grants, contracts and fees receivable, net (Notes 2F, 2G, 2H, 5A) | 23,231,905 | 31,604,385 |
| Pledges receivable (Notes 2F, 2H and 6) | 1,442,126 | 2,354,943 |
| Rent and other receivable, net | 188,947 | 64,633 |
| Prepaid expenses and other assets | 757,953 | 675,385 |
| Restricted cash (Notes 2E and 4) | 21,430,075 | 1,567,316 |
| Operating lease right-of-use assets (Notes 2N and 11B) | 63,947,161 | 18,086,209 |
| Property and equipment, net (Notes 2I and 7) | 63,540,172 | 23,977,592 |
| Security deposits | 1,236,265 | 1,350,933 |
| | \$ 179,953,706 | \$ 81,438,583 |
| TOTAL ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | 11,822,862 | 8,168,354 |
| Accrued salaries and related expenses | 2,004,688 | 2,022,528 |
| Accrued vacation | 1,866,317 | 1,688,759 |
| Government refundable advances and reserves (Note 2J) | 942,194 | 1,428,533 |
| Third party reserves (Note 2E and 4) | 1,249,426 | 1,201,827 |
| Accrued interest (Notes 9 and 10) | 2,315,131 | 1,243,331 |
| Operating lease liability (Notes 2N and 11B) | 66,357,048 | 18,538,348 |
| Bank line of credit payable (Note 8) | - | 6,750,000 |
| Loans payable (Note 9) | 60,779,966 | 7,263,814 |
| Mortgage payable (Note 10) | 5,048,046 | 5,048,046 |
| | 152,385,678 | 53,353,540 |
| TOTAL LIABILITIES | | |
| COMMITMENTS AND CONTINGENCIES (Note 11) | | |
| NET ASSETS (Note 2C) | | |
| Without donor restrictions | 20,007,486 | 19,259,606 |
| With donor restrictions (Note 16) | 7,560,542 | 8,825,437 |
| | 27,568,028 | 28,085,043 |
| TOTAL NET ASSETS | | |
| | \$ 179,953,706 | \$ 81,438,583 |
| TOTAL LIABILITIES AND NET ASSETS | | |

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

**THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024**

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total 2025</u> | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total 2024</u> |
|---|---------------------------------------|------------------------------------|-----------------------|---------------------------------------|------------------------------------|-----------------------|
| OPERATING ACTIVITIES: | | | | | | |
| PUBLIC SUPPORT AND REVENUE: | | | | | | |
| Contributions and revenue from special events (Note 2F) | \$ 711,353 | \$ - | \$ 711,353 | \$ 886,930 | \$ - | \$ 886,930 |
| Direct expenses from special events (Note 2M) | <u>(154,449)</u> | <u>-</u> | <u>(154,449)</u> | <u>(181,572)</u> | <u>-</u> | <u>(181,572)</u> |
| Special events, net | 556,904 | - | 556,904 | 705,358 | - | 705,358 |
| Government grants and fees (Notes 2F, 2G and 5A) | 76,574,897 | - | 76,574,897 | 68,359,864 | - | 68,359,864 |
| Foundation grants, contributions and other (Note 2F) | 1,888,673 | 2,558,025 | 4,446,698 | 2,474,083 | 2,683,155 | 5,157,238 |
| Noncash contributions in-kind (Note 2K) | 155,524 | - | 155,524 | 197,351 | - | 197,351 |
| Other income (Note 15) | 469,975 | - | 469,975 | 1,197,345 | - | 1,197,345 |
| Net assets released from restrictions (Notes 2C and 16) | <u>3,822,920</u> | <u>(3,822,920)</u> | <u>-</u> | <u>3,557,745</u> | <u>(3,557,745)</u> | <u>-</u> |
| TOTAL OPERATING PUBLIC SUPPORT AND REVENUE | <u>83,468,893</u> | <u>(1,264,895)</u> | <u>82,203,998</u> | <u>76,491,746</u> | <u>(874,590)</u> | <u>75,617,156</u> |
| EXPENSES: (Note 2L) | | | | | | |
| Program services | 69,420,654 | - | 69,420,654 | 61,556,211 | - | 61,556,211 |
| Management and general | 9,792,952 | - | 9,792,952 | 12,136,371 | - | 12,136,371 |
| Fundraising | <u>1,532,593</u> | <u>-</u> | <u>1,532,593</u> | <u>1,411,022</u> | <u>-</u> | <u>1,411,022</u> |
| TOTAL OPERATING EXPENSES | <u>80,746,199</u> | <u>-</u> | <u>80,746,199</u> | <u>75,103,604</u> | <u>-</u> | <u>75,103,604</u> |
| Change in Net Assets from Operations | 2,722,694 | (1,264,895) | 1,457,799 | 1,388,142 | (874,590) | 513,552 |
| NONOPERATING ACTIVITIES | | | | | | |
| Non-operating lease expense (Note 2O) | <u>(1,974,814)</u> | <u>-</u> | <u>(1,974,814)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL NONOPERATING ACTIVITIES | <u>(1,974,814)</u> | <u>-</u> | <u>(1,974,814)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| CHANGE IN NET ASSETS | 747,880 | (1,264,895) | (517,015) | 1,388,142 | (874,590) | 513,552 |
| Net Assets - Beginning of Year | <u>19,259,606</u> | <u>8,825,437</u> | <u>28,085,043</u> | <u>17,871,464</u> | <u>9,700,027</u> | <u>27,571,491</u> |
| NET ASSETS - END OF YEAR | <u>\$ 20,007,486</u> | <u>\$ 7,560,542</u> | <u>\$ 27,568,028</u> | <u>\$ 19,259,606</u> | <u>\$ 8,825,437</u> | <u>\$ 28,085,043</u> |

THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2024)

For the Year Ended June 30, 2025

| | Program Services | | | | | Support Services | | | Total 2025 | Total 2024 | |
|---|---|----------------------|----------------------------------|---|----------------------|------------------------------|------------------------------|---------------------|----------------------|----------------------|------------------------------|
| | Employment and Education Services | Housing Services | Alternatives to Incarceration | Licensed Behavioral Health Services | Other Programs | Total Program Services | Management and General | Fundraising | | | Total Support Services |
| Salaries | \$ 1,680,798 | \$ 8,237,888 | \$ 11,800,102 | \$ 3,065,841 | \$ 7,040,765 | \$ 31,825,394 | \$ 5,087,523 | \$ 828,393 | \$ 5,915,916 | \$ 37,741,310 | \$ 34,953,339 |
| Payroll taxes and fringe benefits (Note 13) | 574,432 | 3,198,067 | 3,318,486 | 973,129 | 2,039,043 | 10,103,157 | 1,570,606 | 262,941 | 1,833,547 | 11,936,704 | 10,798,871 |
| Total Personnel Costs | 2,255,230 | 11,435,955 | 15,118,588 | 4,038,970 | 9,079,808 | 41,928,551 | 6,658,129 | 1,091,334 | 7,749,463 | 49,678,014 | 45,752,210 |
| Professional fees (Note 2K) | 457,273 | 564,353 | 2,041,257 | 104,207 | 576,219 | 3,743,309 | 1,306,586 | 227,584 | 1,534,170 | 5,277,479 | 4,769,922 |
| Benefit expense | - | - | - | - | - | - | - | 154,449 | 154,449 | 154,449 | 181,572 |
| Supplies, materials, printing, stationery and other | 200,907 | 482,104 | 343,622 | 97,249 | 114,310 | 1,238,192 | 194,252 | 43,610 | 237,862 | 1,476,054 | 883,553 |
| Staff training/conference activities | 27,525 | 45,545 | 190,108 | 14,401 | 24,606 | 302,185 | 124,206 | 35,972 | 160,178 | 462,363 | 429,202 |
| Client travel | 158,878 | 48,080 | 183,904 | 37,056 | 10,490 | 438,408 | - | - | - | 438,408 | 373,220 |
| Client rent | - | 8,993,002 | 1,017,668 | - | 2,802 | 10,013,472 | - | - | - | 10,013,472 | 8,910,832 |
| Client food, activities and other | 90,277 | 873,744 | 657,283 | 33,073 | 25,019 | 1,679,396 | - | - | - | 1,679,396 | 1,707,442 |
| Client stipends and incentives | 965,335 | 19,408 | 118,381 | 11,355 | 41,541 | 1,156,020 | - | - | - | 1,156,020 | 1,094,581 |
| Telephone | 2,264 | 18,898 | 494,696 | 9,328 | 94,303 | 619,489 | 11,594 | 34 | 11,628 | 631,117 | 726,869 |
| Occupancy | 318,054 | 2,105,366 | 1,635,158 | 354,061 | 416,704 | 4,829,343 | 188,249 | 62,049 | 250,298 | 5,079,641 | 5,588,527 |
| Internet and information technology services | 37,065 | 115,942 | 222,479 | 222,319 | 127,244 | 725,049 | 213,228 | 31,865 | 245,093 | 970,142 | 822,299 |
| Furniture and equipment expense | 25,034 | 357,066 | 302,006 | 28,675 | 85,858 | 798,639 | 35,860 | 8,581 | 44,441 | 843,080 | 690,066 |
| Interest and bank fees | - | 50,481 | - | - | - | 50,481 | 409,107 | - | 409,107 | 459,588 | 454,302 |
| Bad debt | - | - | - | - | - | - | 398,738 | - | 398,738 | 398,738 | 953,185 |
| Insurance | 42,680 | 358,520 | 209,150 | 36,305 | 51,216 | 697,871 | 100,952 | 6,642 | 107,594 | 805,465 | 784,566 |
| Depreciation and amortization (Notes 2I and 7) | 51,502 | 503,900 | 345,258 | 92,237 | 207,352 | 1,200,249 | 152,051 | 24,922 | 176,973 | 1,377,222 | 1,162,828 |
| Subtotal | 4,632,024 | 25,972,364 | 22,879,558 | 5,079,236 | 10,857,472 | 69,420,654 | 9,792,952 | 1,687,042 | 11,479,994 | 80,900,648 | 75,285,176 |
| Less: Cost of direct benefit to donors | - | - | - | - | - | - | - | (154,449) | (154,449) | (154,449) | (181,572) |
| TOTAL EXPENSES | \$ 4,632,024 | \$ 25,972,364 | \$ 22,879,558 | \$ 5,079,236 | \$ 10,857,472 | \$ 69,420,654 | \$ 9,792,952 | \$ 1,532,593 | \$ 11,325,545 | \$ 80,746,199 | \$ 75,103,604 |

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, 2024

| | For the Year Ended June 30, 2024 | | | | | | | | | |
|---|---|----------------------|----------------------------------|---|---------------------|------------------------------|------------------------------|---------------------|------------------------------|----------------------|
| | Program Services | | | | | Support Services | | | | |
| | Employment and Education Services | Housing Services | Alternatives to Incarceration | Licensed Behavioral Health Services | Other Programs | Total Program Services | Management and General | Fundraising | Total Support Services | Total 2024 |
| Salaries | \$ 2,198,449 | \$ 9,204,990 | \$ 8,755,105 | \$ 2,909,612 | \$ 5,073,569 | \$ 28,141,725 | \$ 6,062,447 | \$ 749,167 | \$ 6,811,614 | \$ 34,953,339 |
| Payroll taxes and fringe benefits (Note 13) | 622,558 | 2,820,687 | 2,689,311 | 904,728 | 1,737,349 | 8,774,633 | 1,791,543 | 232,695 | 2,024,238 | 10,798,871 |
| Total Personnel Costs | 2,821,007 | 12,025,677 | 11,444,416 | 3,814,340 | 6,810,918 | 36,916,358 | 7,853,990 | 981,862 | 8,835,852 | 45,752,210 |
| Professional fees (Note 2K) | 412,468 | 344,041 | 1,607,694 | 79,596 | 807,054 | 3,250,853 | 1,326,399 | 192,670 | 1,519,069 | 4,769,922 |
| Benefit expense | - | - | - | - | - | - | - | 181,572 | 181,572 | 181,572 |
| Supplies, materials, printing, stationery and other | 54,317 | 119,351 | 377,440 | 77,859 | 75,978 | 704,945 | 154,448 | 24,160 | 178,608 | 883,553 |
| Staff training/conference activities | 22,687 | 42,716 | 122,834 | 16,184 | 68,572 | 272,993 | 131,608 | 24,601 | 156,209 | 429,202 |
| Client travel | 152,225 | 7,796 | 152,151 | 35,560 | 25,488 | 373,220 | - | - | - | 373,220 |
| Client rent | - | 6,061,309 | 2,836,755 | - | 12,768 | 8,910,832 | - | - | - | 8,910,832 |
| Client food, activities and other | 65,087 | 670,830 | 893,921 | 24,243 | 53,361 | 1,707,442 | - | - | - | 1,707,442 |
| Client stipends and incentives | 807,456 | 19,196 | 177,694 | 425 | 89,810 | 1,094,581 | - | - | - | 1,094,581 |
| Telephone | 12,108 | 20,522 | 300,999 | 28,320 | 317,597 | 679,546 | 42,981 | 4,342 | 47,323 | 726,869 |
| Occupancy | 289,294 | 1,067,663 | 2,066,019 | 468,373 | 928,639 | 4,819,988 | 651,471 | 117,068 | 768,539 | 5,588,527 |
| Internet and information technology services | 13,514 | 56,364 | 204,392 | 98,452 | 194,146 | 566,868 | 223,339 | 32,092 | 255,431 | 822,299 |
| Furniture and equipment expense | 17,964 | 187,018 | 318,820 | 28,905 | 67,820 | 620,527 | 62,533 | 7,006 | 69,539 | 690,066 |
| Interest and bank fees | - | 50,481 | - | - | - | 50,481 | 403,821 | - | 403,821 | 454,302 |
| Bad debt | - | - | - | - | - | - | 953,185 | - | 953,185 | 953,185 |
| Insurance | 16,550 | 234,224 | 259,878 | 29,087 | 63,814 | 603,553 | 173,661 | 7,352 | 181,013 | 784,566 |
| Depreciation and amortization (Notes 2I and 7) | 57,085 | 480,333 | 231,591 | 77,188 | 137,827 | 984,024 | 158,935 | 19,869 | 178,804 | 1,162,828 |
| Subtotal | 4,741,762 | 21,387,521 | 20,994,604 | 4,778,532 | 9,653,792 | 61,556,211 | 12,136,371 | 1,592,594 | 13,728,965 | 75,285,176 |
| Less: Cost of direct benefit to donors | - | - | - | - | - | - | - | (181,572) | (181,572) | (181,572) |
| TOTAL EXPENSES | \$ 4,741,762 | \$ 21,387,521 | \$ 20,994,604 | \$ 4,778,532 | \$ 9,653,792 | \$ 61,556,211 | \$ 12,136,371 | \$ 1,411,022 | \$ 13,547,393 | \$ 75,103,604 |

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

**THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024**

| | 2025 | 2024 |
|--|---------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (517,015) | \$ 513,552 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 1,377,222 | 1,162,828 |
| Reduction in carrying amount of right-of-use assets - operating leases | (45,860,952) | 6,212,029 |
| Bad debt | 398,738 | 953,185 |
| Subtotal | (44,602,007) | 8,841,594 |
| Changes in operating assets and liabilities: | | |
| (Increase) or decrease in assets: | | |
| Government grants, contracts and fees receivable | 7,973,742 | (10,065,153) |
| Pledges receivable | 912,817 | 1,267,721 |
| Rent and other receivable | (124,314) | (6,527) |
| Prepaid expenses and other assets | (82,568) | 45,941 |
| Security deposits | 114,668 | (310,259) |
| Increase or (decrease) in liabilities: | | |
| Account payable and accrued expenses | 3,654,508 | 5,074,443 |
| Accrued salaries and related expenses | (17,840) | 373,247 |
| Accrued vacation | 177,558 | 278,355 |
| Operating lease liability | 47,818,700 | (6,104,152) |
| Government refundable advances | (486,339) | (895,509) |
| Accrued interest | 1,071,800 | 29,133 |
| Third party reserves | 47,599 | 53,373 |
| Net Cash Provided by (Used in) Operating Activities | 16,458,324 | (1,417,793) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (40,939,802) | (9,136,599) |
| Net Cash Used in Investing Activities | (40,939,802) | (9,136,599) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal repayments of bank line of credit | (6,750,000) | (15,800,000) |
| Proceeds from bank line of credit | - | 22,550,000 |
| Proceeds from loans | 54,731,152 | 5,717,688 |
| Repayment of loans | (1,215,000) | (1,004,652) |
| Net Cash Provided by Financing Activities | 46,766,152 | 11,463,036 |
| NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | 22,284,674 | 908,644 |
| Cash, cash equivalents and restricted cash - beginning of year | 3,324,503 | 2,415,859 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR | \$ 25,609,177 | \$ 3,324,503 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the year for interest | \$ 374,945 | \$ 408,964 |
| 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 | \$ 4,179,102 | \$ 1,757,187 |
| Restricted cash | 21,430,075 | 1,567,316 |
| Cash, cash equivalents and restricted cash | \$ 25,609,177 | \$ 3,324,503 |

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

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 LP, Fortune GP, Inc. ("GP"), Fortune Castle III 123 L.P. ("Castle III") and 258 West 97th Street HDFC ("Castle IV"), collectively referred to as Fortune.

FSI is a nonprofit, 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 Nonprofit Corporation Law, both of the State of New York. The sole member of HDFC is FSI.

Fortune LP, 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 LP was assigned to HDFC. GP continues to hold a 0.01% general partner interest in Fortune LP. See Note 14A for further discussion of this transaction. As a result of this transaction, commencing on June 17, 2017, the accounts of Fortune LP 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 14A). 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 Nonprofit Corporation Law, both of the State of New York. The sole member of WHDFC is FSI.

During 2008, Fortune West 140th Street GP, Inc. ("West GP") 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 14B). WHDFC owns 75% of West GP and Harlem Congregations for Community Improvement, Inc. ("HCCI"), a New York nonprofit corporation, owns 25% of West GP.

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

The accounts of WHDFC, including its interest in West GP, 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"), a nonprofit 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.

Castle III was formed as a limited partnership under the Revised Uniform Limited Partnership Act of the State of New York on July 17, 2023 with the New York Department of State for the purpose of holding beneficial title to real property located at 107-111 East 123rd Street through a nominee agreement with 107-111 East 123rd Street Housing Development Fund Corporation as holder of legal title to the Property. The general partner of Castle III is Fortune Castle III 123, GP, Inc., a New York Corporation which is wholly owned by FSI.

Castle IV, a nonprofit corporation, was incorporated on January 3, 2022 pursuant to Article XI of the Private Housing Finance Law and section 402 of the Nonprofit Corporation Law of the State of New York for the purpose of developing and operating a housing project for persons of low income. The Corporation was organized to provide relief for the poor, the distressed, and the underprivileged; lessen the burdens of the government; lessen neighborhood tension; eliminate prejudice and discrimination; and combat community deterioration. The sole member of Castle IV is FSI.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES (Continued)

FSI, HDFC, WHDFC, 1080 HDFC and Castle IV 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 LP, Fortune GP, Inc., Castle III, and Castle IV. 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. ***Consolidated Financial Statement Presentation*** - 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. ***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.
- E. ***Cash, Cash Equivalents and Restricted 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.
- F. ***Support Revenue and Receivable*** - 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. Based on Fortune’s historical loss experience and considering the age of its receivables, no allowance for doubtful accounts for pledges receivable was deemed necessary as of June 30, 2025 and 2024. If there are pledges receivable due in greater than one year, they are not discounted to present value, unless material. The discounts on pledges, if material, are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue.

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.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of June 30, 2025 and 2024, Fortune received conditional grants and contributions accounted for under ASU 2018-08 from government agencies in the aggregate amount of approximately \$155 million and \$43 million, respectively. 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.

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. ***Fees and 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. Receivables are due in full when billed and revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by Fortune in accordance with the contract. Revenue for performance obligations satisfied over time is recognized as the services are provided. This method depicts the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Fortune measures the performance obligation from the beginning of the next month or day to the point when it is no longer required to provide services under the contract or has met the requirements to bill for the services provided, which is generally at the end of each month or period of time allowed based on the stipulations.

All performance obligations relate to contracts with a duration of less than one year, therefore, there are no performance obligations or contract balances that are unsatisfied as of June 30, 2025 and 2024. The performance obligations for these contracts are completed when the service is completed and upon submission of required documentation. Fortune determines the transaction price based on established rates or contracts for services provided.

- H. ***Allowance for Credit Losses and Doubtful Accounts*** - Fortune determined an allowance for credit losses should be provided for fees for service and other receivables. FSI adopted measurement of credit losses on financial instruments in 2024 and the measurement is based on management's assessment of the aged basis of its accounts, current economic conditions, subsequent receipts and historical information. Accounts receivable are written off against allowance for credit losses when all reasonable collection efforts have been exhausted. As of June 30, 2025 and 2024, there was an allowance for credit losses recorded of \$1,319,986 and \$1,191,513, respectively. There were write-offs in the amount of \$84,780 and \$59,597 for the years ended June 30, 2025 and 2024, respectively.

Fortune determines whether an allowance for uncollectible receivables should be provided for government grants/contracts receivable, pledges, client rent and notes receivable. As of June 30, 2025 and 2024, Fortune determined an allowance of \$0 and \$1,021,066, respectively, was necessary for government grants and contracts receivable, \$421,867 and \$388,174, respectively, was necessary for client rent receivable and no allowance was necessary for pledges receivable.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2025 and 2024. Such determinations are based on management's assessment of the aged basis of its receivables, current economic conditions, creditworthiness of its donors, historical experience, and collections subsequent to year end.

An analysis of the allowance for credit losses for the year ended June 30, 2025 is as follows:

| | | | |
|-----------------------------|--|----|---------------------|
| Beginning of year | | \$ | 1,191,513 |
| Provision for credit losses | | | 213,253 |
| Write offs | | | <u>(84,780)</u> |
| End of year | | | <u>\$ 1,319,986</u> |

- I. **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 and equipment 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, 2025 and 2024.

- J. **Government Refundable Advances** - Government refundable advances represent amounts received by Fortune under governmental contracts for which Fortune has not yet provided the services. To the extent amounts received exceed amounts spent, Fortune establishes advances from government funders. Contract activities and outlays are subject to audit and acceptance by the funding agency and as a result of such audit, adjustments could be required.
- K. **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, 2025 and 2024, Fortune recorded income and expenses for donated legal services valued at \$155,524 and \$197,351, respectively. These services were valued at fair value and reflected in the consolidated statements of functional expenses in other programs activities for the years ended June 30, 2025 and 2024, respectively.

Noncash contributions in-kind for the year ended June 30, 2025 consisted of the following:

| <u>Nonfinancial Asset</u> | <u>Amount</u> | <u>Used in Programs/Activities</u> | <u>Donor-imposed Restriction</u> | <u>Fair Value Techniques</u> |
|---------------------------|---------------|------------------------------------|----------------------------------|---|
| Donated legal services | \$ 155,524 | Other Programs Activities | No donor restrictions | Based on current rates of legal services provided by law firm |

Noncash contributions in-kind for the year ended June 30, 2024, consisted of the following:

| <u>Nonfinancial Asset</u> | <u>Amount</u> | <u>Used in Programs/Activities</u> | <u>Donor-imposed Restriction</u> | <u>Fair Value Techniques</u> |
|---------------------------|---------------|------------------------------------|----------------------------------|---|
| Donated legal services | \$ 197,351 | Other Programs Activities | No donor restrictions | Based on current rates of legal services provided by law firm |

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. **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.

M. **Special Events Direct Costs** – The direct costs of special events consist of meals and facilities rental which are expenses incurred for the benefit of the donor.

N. **Leases** – Fortune follows FASB ASU 2016-02, *Leases* (Topic 842) to report how leases are recognized and disclosed. Leases are included in right-of-use (“ROU”) assets and lease liabilities in the consolidated statements of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. Fortune does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

O. **Operating Activities** – Fortune considers all revenue and expense items to be a part of its operations with the exception of lease costs in excess of payments as described in Note 2N. Such costs are reported as non-operating activities in the accompanying consolidated statement of activities.

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, and receivables. 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:

| | 2025 | 2024 |
|---|---------------|---------------|
| Cash and cash equivalents | \$ 4,179,102 | \$ 1,757,187 |
| Government grants/contracts receivable, net | 22,942,147 | 31,604,385 |
| Pledges receivable due in one year | 1,442,126 | 2,354,943 |
| Rent and other receivable, net | 478,705 | 64,633 |
| Time and purpose restrictions | (7,560,542) | (8,825,437) |
| | \$ 21,481,538 | \$ 26,955,711 |

In addition, Fortune secured a line of credit with a financial institution on October 31, 2025, in the amount of \$10,000,000, which can be drawn upon as needed. See Note 8.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 4 - RESTRICTED CASH

Restricted cash comprised the following as of June 30:

| | 2025 | 2024 |
|---|---------------|--------------|
| Operating reserve (a) | \$ 1,490,572 | \$ 1,523,142 |
| Replacement reserve (a) | 44,174 | 44,174 |
| Escrow and other reserves – 258 West 97 th Street HDFC (b) | 19,895,329 | - |
| | \$ 21,430,075 | \$ 1,567,316 |

(a) Under certain mortgage and other regulatory agreements, Fortune is required to maintain operating and replacement reserves. As of June 30, 2025 and 2024, Fortune held an operating reserve of \$1,490,572 and \$1,523,142, respectively. As of both June 30, 2025 and 2024, Fortune L.P. held a replacement reserve of \$44,174.

(b) In connection with the rehabilitation and construction of an 84 rent-stabilized unit multi-family residential building located at 258 West 97th Street, New York, NY, known as Castle IV, Fortune is required to establish and maintain certain escrow and reserve accounts. Also see Note 9.

NOTE 5 - CONCENTRATIONS

A. Fortune receives major funding primarily from government sources to provide program services. For the years ended June 30, 2025 and 2024, such funding approximated 94% and 90%, respectively, of total public support and revenue. As of June 30, 2025, 71% of government grants, contracts and fees receivable is due from three government sources. As of June 30, 2024, 77% of government grants, contracts and fees receivable is due from two government sources.

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 \$24,532,000 and \$2,558,000 as of June 30, 2025 and 2024, respectively. These amounts include outstanding checks.

NOTE 6 - PLEDGES RECEIVABLE

Pledges receivable consists of the following as of June 30:

| | 2025 | 2024 |
|---------------------------|--------------|--------------|
| Due in less than one year | \$ 1,442,126 | \$ 2,126,576 |
| One to five years | - | 228,367 |
| | \$ 1,442,126 | \$ 2,354,943 |

NOTE 7 - PROPERTY AND EQUIPMENT, NET

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

| | 2025 | 2024 | Estimated Useful Lives |
|---|---------------|---------------|------------------------|
| Land | \$ 992,203 | \$ 992,203 | |
| Leasehold improvements | 7,563,399 | 6,441,867 | 8-15 years |
| Building and improvements | 9,251,233 | 9,251,233 | 27.5-39 years |
| Office equipment and furniture | 6,497,489 | 5,514,576 | 5-10 years |
| Vehicles | 518,356 | 482,943 | 5 years |
| Construction in progress | 49,837,553 | 11,037,589 | |
| Total cost | 74,660,233 | 33,720,411 | |
| Less: accumulated depreciation and amortization | (11,120,041) | (9,742,819) | |
| Net book value | \$ 63,540,172 | \$ 23,977,592 | |

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 7 - PROPERTY AND EQUIPMENT, NET (Continued)

Depreciation and amortization expense amounted to \$1,377,222 and \$1,162,828 for the years ended June 30, 2025 and 2024, respectively. Fully depreciated property and equipment of \$231,115 was disposed of during the year ended June 30, 2024.

Interest expense capitalized was \$1,794,436 and \$1,129,587 for the years ended June 30, 2025 and 2024, respectively.

Construction in progress consists of costs related to the Castle III and Castle IV projects with estimated costs of completion of approximately \$36 million and \$43 million, respectively and estimated completion dates of July 2026 and December 2026, respectively. Fortune obtained funding for the projects from various financing sources 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.

NOTE 8 - BANK LINE OF CREDIT PAYABLE

Fortune had a revolving line of credit with a bank with a maximum borrowing limit of \$7,000,000, at an interest rate of Prime rate plus .5% and an expiration date of December 31, 2024. 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, 2024, borrowings on the line of credit totaled \$6,750,000. The line of credit was fully repaid on February 26, 2025, and was not renewed.

On October 31, 2025, Fortune obtained a variable rate line of credit with a new financial institution in the amount of \$10,000,000. The line matures on October 31, 2026, and bears interest based on the financial institution's prime index rate. Fortune is required to maintain earnings before interest, taxes, depreciation and amortization ("EBITDA") of \$500,000 and the line is secured by all assets of Fortune. As of March 26, 2026, the outstanding balance on the line of credit was \$0.

NOTE 9 - LOANS PAYABLE

- A. 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. The principal balance and outstanding accrued interest was repaid on January 17, 2025. As of June 30, 2024, the outstanding balance amounted to \$840,000, not including accrued interest of \$39,273.
- B. 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 and was subsequently extended December 31, 2024, with an interest rate 4.25%. The loan was repaid on February 25, 2025. As of June 30, 2024, the outstanding balance on the loan was \$415,000.
- C. In December 2019, FSI was approved for a \$120,000 recoverable grant from Deutsche Bank. In June 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. In addition, in November 2022, FSI was approved for a second recoverable grant in the amount of \$120,000 from Deutsche Bank. As of June 30, 2025, \$120,000 was received by FSI and recorded as loan payable. The recoverable grant will be repaid in three equal installments beginning in fiscal 2026, without interest. As of June 30, 2025 and 2024, amounts outstanding under the grants totaled \$120,000 and \$80,000, respectively.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 9 - LOANS PAYABLE (Continued)

Imputed interest was not recorded since it was immaterial to the consolidated financial statements.

- D. In November 2022, Fortune executed an agreement with FJC to establish The Fortune Society Collective Donor Advised Fund Account (the "Fund") in the amount of \$300,000 at FJC. The fund allows current or future donors with donor advised fund accounts at FJC to participate in a program on a pari passu basis with The Fortune Society. It is the intention of FJC and Fortune that all distributions from the Fund shall be matched proportionately with loans supported by notes, in which Fortune is the borrower from the Fund account at FJC, funded by FJC existing or new donors. The notes shall be evidenced by promissory notes bearing interest at 1% and due five years from the date of the first advance. In May 2023, FSI executed the first redemption from the Fund in the amount of \$200,000 to be used in connection with a development at 258 West 97th Street, Manhattan. As of both June 30, 2025 and 2024, \$200,000 was outstanding under the agreement.
- E. On March 8, 2024, Castle III obtained a loan from the New York State Homeless Housing Assistance Program Corporation ("HHAP") to partially finance the construction of a 82-unit multi-family residential building located at 111 East 123rd Street, New York, NY, known Castle III, in the amount of \$6,998,467. Castle III has agreed, among other things, to operate the premises as housing for persons who would otherwise be homeless as approved by HHAP for a period of fifty-five years from the date of the approval of occupancy. The loan is interest-free and repayment is deferred until the end of the 30th year of the contract compliance period. As of June 30, 2025 and 2024, amounts advanced under the financing totaled \$6,238,010 and \$1,243,733, respectively.
- F. JP Morgan Chase also provided construction financing for the Castle III project in the amount of \$14,230,882. The construction loan (including the principal amount of any advance after the initial advance), shall bear interest at a per annum interest rate equal to the one-month Term SOFR plus 225 basis points, which equated to 7.12% at June 30, 2025 and 2024, respectively. The initial maturity date of the construction loan term will be 39 months from the construction loan closing, with the option to extend for two additional six-months period. As of June 30, 2025, and 2024, \$6,402,444 and \$4,485,081, respectively, was outstanding under the financing, not including accrued interest of \$520,695 and \$74,471, respectively.
- G. On March 8, 2024, Castle III executed a building loan note with the City of New York Department of Housing Preservation and Development ("HPD") through JPMorgan Chase Bank, N.A. in the amount of \$9,789,132 to finance the construction of Castle III. The note matures on June 8, 2027, and bears interest of .25% per annum. The note is secured by mortgage property and improvements thereof. Castle III agrees to maintain occupancy of the property as affordable housing in accordance with all regulatory agreements, covenants and other requirements of affordable housing programs that apply to the property and is required to annually certify to the lender that the occupancy of the property complies with the requirements. As of June 30, 2025 and 2024, \$9,789,132 and \$0, respectively, was outstanding under the agreement.
- H. On December 19, 2024, Castle IV entered a Building Loan, Priority Loan and Project Loan agreement, collectively the "Note" with Manufacturers and Traders Trust Company in the amount of \$15,230,440, to finance the rehabilitation and construction of a multi-family residential building with 84 rent-stabilized units located at 258 West 97th Street, New York, NY. The note bears interest at 6.8% and matures on August 15, 2066. The note is secured by (i) a first mortgage lien on the mortgaged property, including, without limitation, the buildings, structures and improvements now or hereafter located thereon, (ii) an assignment of leases and rents, (iii) a lien on all funds held pursuant to the cash management, paying agent and construction agreements, (iv) the collateral assignment of contracts, and (v) the surety bond. Castle IV is required to maintain a debt service coverage ratio of not less than 1.05:1.00 in any year after the program units rent commencement date. As of June 30, 2025, \$15,230,440 is outstanding under the agreement, and the property is still under construction.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 9 - LOANS PAYABLE (Continued)

- I. On December 19, 2024, Castle IV obtained a loan from HPD to partially finance the rehabilitation and construction of Castle IV, in the amount of \$12,876,798. The construction loan converts to a permanent second priority loan no later than twenty-four months after the closing date and matures forty years after the conversion date. From the closing until the conversion date, interest shall accrue on the loan at 4.44% per annum (the "Construction Interest Rate"), with a servicing fee of .40% on the principal amount of the loan payable to the servicer. From the conversion date until the maturity date, interest shall accrue and compound annually at the permanent interest rate of 4.44%. Castle IV has agreed to use the building solely as housing for persons of low income for a period of sixty-years after the conversion period and no fewer than fifty-nine units, shall be leased to homeless persons referred by the City of New York. As of June 30, 2025, \$12,876,798 was outstanding under the agreement.
- J. On March 8, 2024, Castle IV obtained a loan from HHAP to partially finance the rehabilitation and construction of Castle IV, in the amount of \$9,923,142. The loan is interest-free and repayment is deferred until the end of the 30th year of the contract compliance period. As of June 30, 2025, amounts advanced under the financing totaled \$9,923,142.

Approximate future annual principal payments are as follows for the years ending after June 30, 2025:

| | | |
|------------|----|----------------------|
| 2026 | \$ | 40,000 |
| 2027 | | 14,656,133 |
| 2028 | | 1,815,443 |
| 2029 | | - |
| 2030 | | - |
| Thereafter | | <u>44,268,390</u> |
| | | <u>\$ 60,779,966</u> |

NOTE 10 - MORTGAGE PAYABLE

As discussed in Notes 1 and 14, the accounts of Fortune LP are included in the accompanying consolidated financial statements as a result of a 99.99% limited partnership interest in Fortune LP being assigned to Fortune HDFC, effective June 17, 2017. Fortune LP 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 LP. 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. As of June 30, 2025 and 2024, accrued interest amounted to \$1,180,067 and \$1,129,587, respectively.

Under the mortgage and other regulatory agreements, Fortune L.P. is required to maintain operating and replacement reserves. See Note 4.

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, several scattered site buildings and apartments in New York City at various terms under non-cancelable agreements that are considered operating leases, expiring at various dates through 2037. In addition, Fortune leases various equipment and vehicles at various lease terms under long-term non-cancelable operating leases, expiring at various dates through 2026.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

On November 27, 2024, Fortune signed a lease agreement to extend the lease of its office space at 29-76 Northern Boulevard, Long Island City, NY for an additional 31 years.

As of June 30, 2025 and 2024, the operating lease ROU asset balance totaled \$63,947,161 and \$18,086,209, respectively and the operating lease liability totaled \$66,357,048 and \$18,538,348 respectively, as shown in the consolidated statements of financial position. Total operating lease cost for the years ended June 30, 2025 and 2024 were \$8,879,802 and \$7,104,923, respectively. Total cash paid by Fortune in the determination of the lease liabilities were \$6,650,610 and \$7,104,923 for the years ended June 30, 2025 and 2024, respectively.

As of June 30, 2025 and 2024, the weighted average of the remaining lease term was 26.48 years and 4.42 years, respectively and the weighted average discount rate is 4.3% and 3.59%, respectively.

Future minimal rental payments under these leases for the years ending subsequent to June 30, 2025 are as follows:

| | | |
|------------------------------|--|----------------------|
| 2026 | | \$ 5,691,150 |
| 2027 | | 5,114,360 |
| 2028 | | 4,674,785 |
| 2029 | | 3,048,676 |
| 2030 | | 2,617,923 |
| Thereafter | | <u>102,315,643</u> |
| | | 123,462,537 |
| Less: Present value discount | | <u>(57,105,489)</u> |
| Operating lease liability | | <u>\$ 66,357,048</u> |

- 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, 2025 and 2024 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, 2025 and 2024 amounted to \$390,000 and \$298,333, respectively.

NOTE 14 - INVESTMENTS IN LIMITED PARTNERSHIPS

- A. Fortune LP

During 2000, Fortune invested in Fortune LP (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 LP operates a 34-unit rental housing project for formerly incarcerated low-income individuals located at 630 Riverside Drive in New York City.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 14 - INVESTMENTS IN LIMITED PARTNERSHIPS (Continued)

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 LP 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 LP. Therefore, the accounts of Fortune LP are included in the accompanying consolidated financial statements.

Fortune HDFC recorded an investment interest in Fortune LP based on the fair values of Fortune LP's assets and liabilities at June 17, 2017, resulting in the recognition of a "contribution received in acquisition of additional interest in Fortune LP" of \$3,037,059 in 2017.

Pursuant to a regulatory agreement between Fortune LP 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 LP 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 GP. West GP is the general partner of West L.P. West GP has a 0.01% financial interest in West L.P. West GP's capital contribution obligation was \$10. As of June 30, 2025 and 2024, West GP'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 GP. 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, 2025 and 2024, no amounts have been withdrawn from the guaranty reserve by the partnership to fund any operating deficits.

On December 23, 2008, FSI executed two promissory notes with West L.P. in the amounts of \$1,500,000 and \$539,390, and during 2009, advanced the sum total of the two amounting to \$2,039,390 to West L.P. The underlying \$2,039,390 was received from four funders and is considered grants by those funders with certain stipulations that the property be used for mission-based activities for not less than 15 years from the date the certificate of occupancy is issued, as prescribed in the grant agreements between those funders and FSI. If the property is used according to the stipulations, the grants are not repayable to the funders. Since the property is expected to be used for mission-based activities in accordance with these stipulations, the grant funding was reflected in 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.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 14 - INVESTMENTS IN LIMITED PARTNERSHIPS (Continued)

No principal or interest was paid by West L.P. to FSI during the years ended June 30, 2025 and 2024. 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, 2025 and 2024, 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 \$522,000 and \$0 from West L.P. are reflected in other income in the accompanying consolidated statements of activities for the years ended June 30, 2025 and 2024, 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:

| | 2025 | 2024 |
|---|--------------|--------------|
| Time and purpose restricted | \$ 4,523,483 | \$ 5,788,378 |
| Time and purpose restricted – low-income housing tax credit partnership (see Note 14) | 3,037,059 | 3,037,059 |
| | \$ 7,560,542 | \$ 8,825,437 |

Net assets with donor restrictions of \$3,822,920 and \$3,557,745 were released from restrictions for the years ended June 30, 2025 and 2024, respectively, as a result of donor-imposed purpose restrictions being met.

NOTE 17 - SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the consolidated statement of financial position through March 26, 2026, the date the consolidated financial statements were available to be issued. See Note 8.

THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2025

| | <u>The Fortune Society, Inc.</u> | <u>Fortune HDFC</u> | <u>Fortune Castle III 123 L.P</u> | <u>258 West 97th Street HDFC</u> | <u>Eliminations</u> | <u>Consolidated Total 2025</u> |
|---|--------------------------------------|-------------------------|---------------------------------------|--------------------------------------|-----------------------|--|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 4,118,854 | \$ 25,057 | \$ 34,691 | \$ 500 | \$ - | \$ 4,179,102 |
| Government grants, contracts and fees receivable, net | 23,231,905 | - | - | - | - | 23,231,905 |
| Pledges receivable | 1,442,126 | - | - | - | - | 1,442,126 |
| Rent and other receivable, net | 178,243 | 10,704 | - | - | - | 188,947 |
| Prepaid expenses and other assets | 737,679 | 20,274 | - | - | - | 757,953 |
| Investment in Fortune LP | 1 | 84,795 | - | - | (84,796) | - |
| Restricted cash | 1,249,426 | 285,320 | - | 19,895,329 | - | 21,430,075 |
| Operating lease right-of-use assets | 63,947,161 | - | - | - | - | 63,947,161 |
| Property and equipment, net | 6,303,959 | 7,539,369 | 29,312,675 | 20,384,169 | - | 63,540,172 |
| Due from controlled entities | 2,847,893 | 24,183 | - | - | (2,872,076) | - |
| Security deposits | 1,236,265 | - | - | - | - | 1,236,265 |
| TOTAL ASSETS | <u>\$ 105,293,512</u> | <u>\$ 7,989,702</u> | <u>\$ 29,347,366</u> | <u>\$ 40,279,998</u> | <u>\$ (2,956,872)</u> | <u>\$ 179,953,706</u> |
| LIABILITIES | | | | | | |
| Accounts payable and accrued expenses | \$ 5,871,410 | \$ 129,118 | \$ 5,834,082 | \$ - | \$ (11,748) | \$ 11,822,862 |
| Accrued salaries and related expenses | 2,004,688 | - | - | - | - | 2,004,688 |
| Accrued vacation | 1,866,317 | - | - | - | - | 1,866,317 |
| Government refundable advances and reserves | 942,194 | - | - | - | - | 942,194 |
| Third-party reserves | 1,249,426 | - | - | - | - | 1,249,426 |
| Due to controlled entities | - | 849,926 | 486,919 | 1,530,882 | (2,867,727) | - |
| Accrued interest | - | 1,180,067 | 520,695 | 614,369 | - | 2,315,131 |
| Operating lease liability | 66,357,048 | - | - | - | - | 66,357,048 |
| Loans payable | 320,000 | - | 22,429,586 | 38,030,380 | - | 60,779,966 |
| Mortgage payable | - | 5,048,046 | - | - | - | 5,048,046 |
| TOTAL LIABILITIES | <u>78,611,083</u> | <u>7,207,157</u> | <u>29,271,282</u> | <u>40,175,631</u> | <u>(2,879,475)</u> | <u>152,385,678</u> |
| NET ASSETS | | | | | | |
| Without donor restrictions | 22,158,946 | (2,254,514) | 76,084 | 104,367 | (77,397) | 20,007,486 |
| With donor restrictions | 4,523,483 | 3,037,059 | - | - | - | 7,560,542 |
| TOTAL NET ASSETS | <u>26,682,429</u> | <u>782,545</u> | <u>76,084</u> | <u>104,367</u> | <u>(77,397)</u> | <u>27,568,028</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 105,293,512</u> | <u>\$ 7,989,702</u> | <u>\$ 29,347,366</u> | <u>\$ 40,279,998</u> | <u>\$ (2,956,872)</u> | <u>\$ 179,953,706</u> |

THE FORTUNE SOCIETY, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

| | For the Year Ended June 30, 2025 | | | | | | | | | | | Consolidated Total 2025 | |
|---|----------------------------------|----------------------------|---------------------------------------|-------------------------------|----------------------------|-----------------------------|-------------------------------|---|-------------------------------|---------------------------------------|--------------------|-------------------------------|----------------------|
| | The Fortune Society, Inc. | | | Fortune HDFC | | Fortune Castle III 123 L.P. | | 258 West 97th Street HDFC | | | Eliminations | | |
| | Without Donor Restrictions | With Donor Restrictions | The Fortune Society, Inc. Total | Without Donor Restrictions | With Donor Restrictions | Fortune HDFC Total | Without Donor Restrictions | Fortune Castle III 123 L.P. Total | Without Donor Restrictions | 258 West 97th Street HDFC Total | | | |
| OPERATING ACTIVITIES: | | | | | | | | | | | | | |
| PUBLIC SUPPORT AND REVENUE: | | | | | | | | | | | | | |
| Contributions and revenue from special events | \$ 711,353 | \$ - | \$ 711,353 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 711,353 |
| Direct expenses from special events | (154,449) | - | (154,449) | - | - | - | - | - | - | - | - | - | (154,449) |
| Special events, net | 556,904 | - | 556,904 | - | - | - | - | - | - | - | - | - | 556,904 |
| Government grants and fees | 76,574,897 | - | 76,574,897 | - | - | - | - | - | - | - | - | - | 76,574,897 |
| Foundation grants, contributions and other | 1,888,673 | 2,558,025 | 4,446,698 | - | - | - | - | - | - | - | - | - | 4,446,698 |
| Noncash contributions in-kind | 155,524 | - | 155,524 | - | - | - | - | - | - | - | - | - | 155,524 |
| Other income | 297,211 | - | 297,211 | 56,577 | - | 56,577 | - | - | 116,187 | 116,187 | - | - | 469,975 |
| Net assets released from restrictions | 3,822,920 | (3,822,920) | - | - | - | - | - | - | - | - | - | - | - |
| TOTAL OPERATING PUBLIC SUPPORT AND REVENUE | 83,296,129 | (1,264,895) | 82,031,234 | 56,577 | - | 56,577 | - | - | 116,187 | 116,187 | - | - | 82,203,998 |
| EXPENSES: | | | | | | | | | | | | | |
| Program services | 69,199,507 | - | 69,199,507 | 207,233 | - | 207,233 | - | - | - | - | - | - | 69,406,740 |
| Management and general | 9,777,465 | - | 9,777,465 | 16,268 | - | 16,268 | 1,313 | 1,313 | 11,820 | 11,820 | - | - | 9,806,866 |
| Fundraising | 1,532,593 | - | 1,532,593 | - | - | - | - | - | - | - | - | - | 1,532,593 |
| TOTAL OPERATING EXPENSES | 80,509,565 | - | 80,509,565 | 223,501 | - | 223,501 | 1,313 | 1,313 | 11,820 | 11,820 | - | - | 80,746,199 |
| Change in Net Assets from Operations | 2,786,564 | (1,264,895) | 1,521,669 | (166,924) | - | (166,924) | (1,313) | (1,313) | 104,367 | 104,367 | - | - | 1,457,799 |
| NONOPERATING ACTIVITIES: | | | | | | | | | | | | | |
| Non-operating lease expense (Note 2O) | (1,974,814) | - | (1,974,814) | - | - | - | - | - | - | - | - | - | (1,974,814) |
| TOTAL NONOPERATING ACTIVITIES | (1,974,814) | - | (1,974,814) | - | - | - | - | - | - | - | - | - | (1,974,814) |
| CHANGE IN NET ASSETS | 811,750 | (1,264,895) | (453,145) | (166,924) | - | (166,924) | (1,313) | (1,313) | 104,367 | 104,367 | - | - | (517,015) |
| Net Assets - Beginning of Year | 21,347,196 | 5,788,378 | 27,135,574 | (2,087,590) | 3,037,059 | 949,469 | 77,397 | 77,397 | - | - | (77,397) | - | 28,085,043 |
| NET ASSETS - END OF YEAR | \$ 22,158,946 | \$ 4,523,483 | \$ 26,682,429 | \$ (2,254,514) | \$ 3,037,059 | \$ 782,545 | \$ 76,084 | \$ 76,084 | \$ 104,367 | \$ 104,367 | \$ (77,397) | \$ - | \$ 27,568,028 |