FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

FINANCIAL STATEMENTS

OCTOBER 31, 2018 AND 2017
AND FOR THE YEARS THEN ENDED

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

OCTOBER 31, 2018 AND 2017

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Family Enrichment Network, Inc.
Johnson City, New York 13790

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Family Enrichment Network, Inc. (a nonprofit organization) and its affiliate, which comprise the consolidated statement of financial position as of October 31, 2018 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Family Enrichment Network, Inc. and its affiliate as of October 31, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Family Enrichment Network, Inc. (a nonprofit organization) and its affiliate's October 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2018, on our consideration of Family Enrichment Network, Inc. and its affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Family Enrichment Network, Inc. and its affiliate's internal control over financial reporting and compliance.

Davidson, Fox + Company, LLP

Binghamton, New York
February 19, 2019

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FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
OCTOBER 31, 2018 AND 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 412,679	$ 203,306
Grants receivable	795,892	535,992
Program service fees receivable	622,796	541,562
Prepaid expenses	-	4,483
Inventory	7,263	7,551
TOTAL CURRENT ASSETS	1,838,630	1,292,894
PROPERTY AND EQUIPMENT		
Buildings and improvements	4,044,552	4,042,070
Furniture and equipment	611,191	606,331
Vehicles	1,012,773	963,576
Land	290,579	130,256
	5,959,095	5,742,233
Less: accumulated depreciation	(2,964,806)	(2,769,621)
TOTAL PROPERTY AND EQUIPMENT, net	2,994,289	2,972,612
OTHER ASSETS		
Investment in Southern Tier Connect	50,000	-
Intangible assets, net of accumulated amortization of $7,076 and $5,687	8,198	9,588
TOTAL OTHER ASSETS	58,198	9,588
	$ 4,891,117	$ 4,275,094

See accompanying notes to financial statements

LIABILITIES AND NET ASSETS

		2018		2017
CURRENT LIABILITIES				
Current portion of long-term debt	$	140,666	$	125,307
Lines of credit		437,045		449,344
Accounts payable		268,431		490,411
Accrued expenses		446,233		278,289
Deferred revenue		9,441		-
TOTAL CURRENT LIABILITIES		1,301,816		1,343,351
LONG-TERM LIABILITIES				
Long-term debt, net of current portion		305,659		352,452
TOTAL LIABILITIES		1,607,475		1,695,803
NET ASSETS				
Unrestricted		3,283,642		2,579,291
	$	4,891,117	$	4,275,094

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED OCTOBER 31, 2018 AND 2017

	2018	2017
SUPPORT AND REVENUE		
Government grants		
Head Start	$ 3,857,671	$ 3,639,534
Early Head Start	1,878,410	1,688,095
Child and Adult Food Grant - HS	381,044	371,929
Child and Adult Food Grant - Providers	479,712	535,517
Child Care Resource and Referral	503,994	494,591
New Pathways for Fathers	437,345	422,686
New York State grants	251,489	282,506
Other	526,108	385,887
Program service revenue		
Universal Pre-Kindergarten		
Binghamton City Schools	309,000	319,766
Binghamton Special Education	55,200	59,400
Johnson City Schools	170,091	178,621
Union-Endicott Special Education	56,988	38,814
Special services	2,574,881	2,247,952
Other program fees	416,906	343,649
Contributions and fundraising	199,523	76,850
Interest income	304	121
Gain on disposal of property and equipment	-	23,217
In-kind contributions	229,314	336,848
TOTAL SUPPORT AND REVENUE	12,327,980	11,445,983
EXPENSES		
Program services	11,578,317	11,354,415
Support services	45,312	61,669
TOTAL EXPENSES	11,623,629	11,416,084
CHANGE IN NET ASSETS	704,351	29,899
NET ASSETS, beginning of year	2,579,291	2,549,392
NET ASSETS, end of year	$ 3,283,642	$ 2,579,291

See accompanying notes to financial statements

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED OCTOBER 31, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED OCTOBER 31, 2017

	Program Services							Support Services					
	Head Start	Early Head Start	CCR&R	CACFP	Special Services	Other Programs	Total Programs	Central Administrative	Fundraising	Total Support	Total 2018	Total 2017	
(1) Salaries and wages	$ 2,538,633	$ 1,257,833	$ 246,821	$ 44,395	$ 1,579,923	$ 875,512	$ 6,543,117	$ 555,318	$ 1,277	$ 556,595	$ 7,099,712	$ 6,908,033	**(1)**
(2) Employee benefits and payroll expenses	520,549	255,580	75,583	27,477	330,151	259,297	1,468,637	173,859	6,354	180,213	1,648,850	1,704,575	**(2)**
(3) Specific assistance to individuals	999	-	2,587	398,130	144	26,033	427,893	2,154	-	2,154	430,047	461,306	**(3)**
(4) Supplies	79,448	27,274	4,752	343,391	19,237	54,097	528,199	(6,415)	22,793	16,378	544,577	527,641	**(4)**
(5) Telephone	11,845	3,483	1,822	109	2,644	5,180	25,083	25,171	-	25,171	50,254	47,428	**(5)**
(6) Postage and shipping	1,685	216	3,237	843	2,712	1,082	9,775	6,699	98	6,797	16,572	15,495	**(6)**
(7) Occupancy	187,921	77,835	7,027	2,426	39,591	13,604	328,404	54,609	31	54,640	383,044	344,750	**(7)**
(8) Equipment rental and maintenance	1,372	-	-	-	1,048	46,415	48,835	25	-	25	48,860	35,818	**(8)**
(9) Printing and publications	23,861	8,930	2,765	788	4,576	2,456	43,376	20,269	-	20,269	63,645	62,714	**(9)**
(10) Local travel	16,731	4,557	2,093	2,922	10,384	33,437	70,124	1,516	(82)	1,434	71,558	70,648	**(10)**
(11) Out-of-town travel	3,192	448	2,185	920	155	6,621	13,521	1,380	1,425	2,805	16,326	11,544	**(11)**
(12) Donations	-	-	-	-	-	968	968	195	-	195	1,163	2,772	**(12)**
(12) Contractual	44,076	20,563	10,062	1,698	95,549	110,399	282,347	51,098	5,850	56,948	339,295	249,291	**(12)**
(13) Insurance	50,163	8,768	3,692	-	380	(2)	63,001	9,516	-	9,516	72,517	74,451	**(13)**
(14) Recruitment and advertising	-	-	-	-	-	1,213	1,213	2,250	-	2,250	3,463	15,773	**(14)**
(15) Dues and memberships	-	-	2,575	-	-	120	2,695	-	-	-	2,695	11,264	**(15)**
(16) Parent fund	7,331	919	-	-	-	19,613	27,863	-	-	-	27,863	13,325	**(16)**
(17) Staff development	18,240	18,230	1,575	-	1,946	6,237	46,228	4,083	-	4,083	50,311	44,225	**(17)**
(18) Pupil transportation	70,289	24,667	-	-	-	20,572	115,528	2,546	-	2,546	118,074	149,596	**(18)**
(19) Field trips	1,608	173	-	-	410	18	2,209	-	-	-	2,209	3,608	**(19)**
(20) Bad debt expense	-	-	-	-	-	57,651	57,651	-	-	-	57,651	4,860	**(20)**
(21) Bank charges	-	-	-	-	2,102	49,174	51,276	88	429	517	51,793	43,241	**(21)**
(22) Employee recognition	-	-	-	-	-	600	600	-	-	-	600	638	**(22)**
(23) Legal and accounting	606	-	104	-	8,606	569	9,885	48,156	2,320	50,476	60,361	46,630	**(23)**
(24) Subtotal before non-cash expenditures	3,578,549	1,709,476	366,880	823,099	2,099,558	1,590,866	10,168,428	952,517	40,495	993,012	11,161,440	10,849,626	**(24)**
(25) In-kind expenditures	69,829	159,485	-	-	-	-	229,314	-	-	-	229,314	331,790	**(25)**
(26) Depreciation and amortization	81,955	39,150	8,402	18,850	48,084	36,434	232,875	-	-	-	232,875	234,668	**(26)**
(27) Subtotal	3,730,333	1,908,111	375,282	841,949	2,147,642	1,627,300	10,630,617	952,517	40,495	993,012	11,623,629	11,416,084	**(27)**
(28) Central administrative costs	304,263	148,511	44,762	10,538	239,677	199,949	947,700	(952,517)	4,817	(947,700)	-	-	**(28)**
(29) Total Expenses	$ 4,034,596	$ 2,056,622	$ 420,044	$ 852,487	$ 2,387,319	$ 1,827,249	$ 11,578,317	$ -	$ 45,312	$ 45,312	$ 11,623,629	$ 11,416,084	**(29)**

See accompanying notes to financial statements

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 704,351	$ 29,899
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	232,875	234,667
Gain on disposal of property and equipment	-	(23,216)
Non-cash revenues	(50,000)	-
(Increase) decrease in		
Grants receivable	(259,900)	(48,873)
Program service fees receivable	(81,234)	(56,011)
Inventory	288	(68)
Prepaid expenses	4,483	1,077
Increase (decrease) in		
Accounts payable	(221,980)	173,362
Accrued expenses	167,944	(110,593)
Deferred revenue	9,441	(83,875)
NET CASH PROVIDED BY OPERATING ACTIVITIES	506,268	116,369
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	-	36,587
Purchases of property and equipment	(156,162)	(118,299)
NET CASH USED IN INVESTING ACTIVITIES	(156,162)	(81,712)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) on lines of credit	(12,299)	50,344
Principal payments on long-term debt obligations	(128,434)	(121,220)
NET CASH USED IN FINANCING ACTIVITIES	(140,733)	(70,876)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	209,373	(36,219)
CASH AND CASH EQUIVALENTS, beginning of year	203,306	239,525
CASH AND CASH EQUIVALENTS, end of year	$ 412,679	$ 203,306

See accompanying notes to financial statements

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2018 AND 2017
(See independent auditor's report)

ORGANIZATION

Family Enrichment Network, Inc. (the Network) is a not-for-profit New York corporation organized for the primary purpose of providing supporting services for the optimal developmental, educational, emotional, and physical growth of children and families in the Southern Tier region of New York State. The Network strives to continuously improve the quality and efficiency of childcare and related family services to the community to insure the greatest value for its investment in child and parent development. The majority of the Network's programs are funded by government and private sector grants.

The Network's Management and Board of Directors formed The Child Development Council, Inc. (TCDC) as a not-for-profit corporation in August 2002. TCDC's primary purpose is to provide support services for the optimal development, educational, and physical growth of disabled children in the Southern Tier region of New York State. The programs of TCDC are primarily funded by New York State government sources.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Network and TCDC. TCDC is consolidated since the Network has both an economic interest in and control of TCDC through a majority voting interest in its governing board. All material inter-organization transactions have been eliminated. The Network and TCDC are collectively referred to as the Entities.

Basis of Presentation

In accordance with generally accepted accounting principles, the Entities are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Management has discretionary control over the Entities' unrestricted net assets and these are utilized to carry out the operations of the Entities in accordance with its by-laws.

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and, accordingly, the Entities recognize revenues as earned and expenses as incurred, which conforms to standards of accounting and reporting appropriate to not-for-profit organizations.

Cash and Cash Equivalents

The Entities consider all unrestricted cash on hand, deposits and securities with maturities of three months or less to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Inventory

Inventory, consisting of program supplies and food, is valued at the lower of cost or market, on a first-in, first-out basis.

Property and Equipment

Property and equipment are stated at cost. Expenditures with costs exceeding $5,000 for additions, renewals and betterments are capitalized; expenditures less than $5,000 or for maintenance and repairs are charged to expense as incurred. Donated equipment is initially recorded at fair market value. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts, and the resulting gain or loss is included in income. Depreciation is computed on the straight-line method over the following estimated useful lives:

	Years
Vehicles	5
Equipment	5 - 15
Building and improvements	5 - 30

The provision for depreciation was $232,875 and $234,668 as of October 31, 2018 and 2017, respectively.

Donated Goods, Services and Labor

Donations of materials, supplies, and services are recorded as contributions at their estimated fair values at date of donation. The donated materials, supplies and services benefitted the Head Start and Early Head Start programs and consisted of classroom supplies, educational materials, and equipment. In addition, special services have been provided through integrated classrooms whereby the salaries of special education teachers, teacher assistants, aides, therapists and other direct service staff are provided in-kind.

Donated services are recognized as contributions in accordance with generally accepted accounting principles, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The value of donated services and materials reported in the financial statements as in-kind contributions and corresponding in-kind expenses for years ended October 31, 2018 and 2017 was $229,314 and $331,790 respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Network also received donations of non-professional volunteer services valued at $141,494 and $183,085 during the year ended October 31, 2018 and 2017, respectively. This amount is not reportable for financial statement purposes, but is included in financial reports to federal agencies.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Grant revenue is recorded as support in the year in which it is received by the Entities unless the grantor specifies that it is to be used in another year. In such case, the Entities record deferred revenue and do not recognize income until the time or purpose restrictions are met. During the current year, the Entities received grant monies to be expended for specific costs. The amounts expended are reflected in program functional expenses. When the grantor receives no direct or indirect benefit from making the grant, the transaction is referred to as non-reciprocal transfer of funds and is recorded as promises to give as explained above.

Program revenue is recorded in accordance with the corresponding contracts. Adjustments to these contracts can be made retroactively by the various funding agencies. Any such adjustments would be recorded by the Entities in the year of notification.

Functional Allocation of Expenses

The costs of providing program and supportive services have been summarized on a functional basis in the Statement of Activities and Functional Expenses. Accordingly, certain costs have been allocated among the programs and supportive services benefited.

Recruitment and Advertising Costs

The Entities expense recruitment and advertising production costs as they are incurred, and recruitment and advertising media and communication costs as the related advertising occurs. Recruitment and advertising expense was $3,463 and $15,773 for the years ended October 31, 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2018 AND 2017
(See independent auditor's report)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status

The Entities are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Entities are not liable for Federal or New York State corporate income taxes, or for Federal unemployment insurance.

Subsequent Events

The Entities have evaluated events and transactions that have occurred between November 1, 2018 and February 19, 2019, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

Reclassifications

Certain amounts from the 2017 financial statements have been reclassified to conform to the presentation for 2018. Net income as previously reported was not impacted by this reclassification.

NOTE 2 - ACCOUNTS RECEIVABLE

Grants receivable consisted of the following at October 31:

	2018	2017
CACFP Food Reimbursement – Head Start	$ 43,911	$ 37,839
CACFP Food Reimbursement – Providers	36,920	41,520
Child Care Referral & Resource	41,688	45,020
Courthouse	4,451	24,725
Infant Toddler Program	17,798	8,136
Head Start	364,483	4,647
Early Head Start	46,968	88,082
Fatherhood	22,337	4,266
ESG Grant	5,466	16,000
Broome County Mental Health	-	10,740
Eat, Play, Grow	17,000	17,000
Community Habilitation Grant	23,057	29,564
NOEP	33,289	51,462
NYS Office of Children & Family Services – Kinship Care	13,185	51,729
NYS Office for People with Developmental Disabilities	75,517	-
Other grant awards	49,822	105,262
Total	$ 795,892	$ 535,992

NOTE 2 - ACCOUNTS RECEIVABLE (Continued)

Program service fees receivable consisted of the following at October 31:

	2018	2017
Binghamton City Schools – UPK	$ 61,800	$ 61,800
Johnson City Schools – UPK	17,862	16,796
Special services	543,134	462,966
Other miscellaneous	-	-
Total	$ 622,796	$ 541,562

NOTE 3 - INVESTMENT IN SOUTHERN TIER CONNECT

In October 2018, the Entities agreed to contribute $50,000 of Medicaid Service Coordination revenue due to them in exchange for a 1% ownership interest in Southern Tier Connect, LLC. Southern Tier Connect, LLC is organized and operated under section 501(c)(3) of the Internal Revenue Code. An officer of the Entities is also a member of the board of directors of Southern Tier Connect, LLC. This investment has been accounted for under the cost method of accounting for investments.

As of October 31, 2018, Southern Tier Connect, LLC had assets of $1,477,115 and liabilities of $98,564 (unaudited).

NOTE 4 - LINES OF CREDIT

The Entities had a $600,000 line of credit with a local lending institution. Interest on outstanding borrowings is payable monthly at prime plus 0.50% (prime was 5.25% October 31, 2018), and are collateralized by substantially all assets of the Entities. Borrowings against this line totaled $425,594 at both October 31, 2018 and 2017.

The Entities have a $50,000, unsecured line of credit with a local lending institution. Interest is payable monthly at prime plus 0.50% (prime was 4.25% at October 31, 2018). Borrowings against this line totaled $11,451 and $23,750 at October 31, 2018 and 2017, respectively.

NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following at October 31:

	2018	2017
Mortgage payable to a local lending institution in 120 monthly installments of $10,483, including interest at 6.3%, through January 2021. This mortgage replaced the original notes from March 2005 of $1,096,000 and September 2004 of $225,000. The mortgage is collateralized by all assets of the Entities.	$ 253,881	$ 359,757

NOTE 5 - LONG-TERM DEBT (Continued)

	2018	2017
Note payable to a local lending institution, in the original amount of $87,000, in 120 monthly installments of $919, including interest at 4.85%, through June 2022.	$ 42,276	$ 49,745
Note payable to a local lending institution, in the original amount of $15,150, in 60 monthly installments of $265, including interest at 1.89%, through November 2019.	3,212	6,264
Note payable to a local lending institution, in the original amount of $40,000, in 120 monthly installments of $420, including interest at 4.69%, through August 2025.	29,323	32,871
Note payable to a local lending institution, in the original amount of $97,000, in 120 monthly installments of $1,168, including interest at 5.73%, through December 2027.	91,483	-
Note payable to a local lending institution, in the original amount of $34,400, in 120 monthly installments of $368, including interest at 5.17%, through November 2025.	26,150	29,122
Subtotal	446,325	477,759
Less: current portion	(140,666)	(125,307)
Long-term debt	$ 305,659	$ 352,452

All of the notes listed above are with the two different local lending institution and are collateralized by all of the assets of the Entities.

Maturities of long-term debt are as follows for years ending October 31:

2019	$ 140,666
2020	146,221
2021	46,427
2022	29,662
2023	18,139
Thereafter	65,210
Total	$ 446,325

The Entities' loan and lines of credit agreements contain various restrictions and covenants. For the year ended October 31, 2018, the Entities were in compliance with all covenants and restrictions.

NOTE 6 - LEASE COMMITMENTS

Operating Leases – Entities as Lessee

The Entities paid $80,202 for three month-to-month leases during both of the years ended October 31, 2018 and 2017.

Operating Leases – Entities as Lessor

The Network owns three residential homes in Johnson City, New York which it leases under various programs and arrangements, utilizing short term lease agreements. Total rental income received during the years ended October 31, 2018 and 2017 amounted to $42,505 and $44,016, respectively, and is included in "Other program fees" in the accompanying Statements of Activities.

NOTE 7 - CONCENTRATIONS

Revenues

The Entities realized approximately 50% of their revenues from United States Department of Health and Human Services for both of the years ended October 31, 2018 and 2017.

Credit Risk

The Entities maintain cash balances at financial institutions located in Binghamton, New York. The balances were insured by Federal Deposit Insurance Coverage (FDIC) up to $250,000 as of October 31, 2018 and 2017. At October 31, 2018 and 2017, the Entities had uninsured cash balances of $238,688 and $-0- respectively. To date, the Entities have not experienced any losses due to uninsured cash balances.

NOTE 8 - EMPLOYEE BENEFIT PLANS

The Entities have adopted the following employee benefit plans for the benefit of all employees:

A. Flex Benefit

   1. Premium Conversion – Under this component, employees' contributions for their share of health insurance premiums are deducted prior to the application of federal and state employment taxes.

   2. Spending Accounts – Under this component, employees determine an amount of pre-tax money to be used to pay for medical expenses that the Entities' insurance does not cover, e.g., deductible amounts, or to pay for dependent care expenses.

NOTE 8 - EMPLOYEE BENEFIT PLANS (Continued)

B. Defined Contribution Plan

The following description of Family Enrichment Network 401(k) Retirement Savings Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

The Plan is a defined contribution profit sharing plan under Section 401(k) of the Internal Revenue Code that was established on November 1, 1993 for the purpose of providing retirement benefits for eligible employees of Entities. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Employees are eligible to participate in the Plan's salary deferral option when they reach the age of 21 and have been employed with the Entities for three months. The Plan allows participants to defer up to 100% of their eligible compensation, but participants are limited to the annual threshold set by the Internal Revenue Service. The Entities match 100% of each participant's deferral, up to a maximum of 2% of compensation. As of November 1, 2006, participants have the option of making Roth elective deferrals.

Each participant's account is credited with the participant's contribution and allocation of (a) the Entities' contributions, (b) Plan earnings, and (c) forfeitures of terminated participants' non-vested accounts. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account. The Plan is a participant-directed Plan. Participants are immediately vested in their voluntary contributions. There is a six year graded vesting schedule with regard to the Entities' contributions of 20% vesting after two years of services, and an additional 20% vesting for each additional year of service. In addition, a participant's account balance will become fully vested upon reaching retirement age, becoming disabled or dying while employed by the Entities. Normal retirement age is 60.

Upon termination of employment, participants may receive all or part of their vested account balance paid at any time. If the value of the participant's vested interest is $5,000 or less, the value is automatically distributed to the participant in a lump-sum amount. Active participants may receive a portion of their vested accounts once they reach age 60. Required minimum distributions are made once a participant reaches age 70½. Additionally, active participants may make hardship withdrawals to satisfy financial hardships as specified in the Plan document. Forfeited, non-vested accounts are retained in the Plan and are first used to pay administrative expenses. The remaining forfeitures shall be allocated to participants' accounts and used to reduce the contribution of the employer.

For the year ended October 31, 2018 and 2017, the Board of Directors authorized a matching contribution of up to 2% of employees' eligible compensation resulting in contributions totaling $52,650 and $47,247 for program services employees and $7,660 and $7,788 for administrative employees, respectively.

NOTE 9 - CONTINGENCIES

The Entities receives the majority of their revenues from government grants and awards. The ultimate determination of amounts received under these programs, generally, is based upon allowable costs reported to and audited by the government agencies. Until such audits occur and final settlements reached, there exists a contingency to refund any amount received in excess of allowable costs.

NOTE 10 - RELATED PARTY TRANSACTIONS

During the years ending October 31, 2018 and 2017, the Entities had deposits on hand and outstanding loans with a local banking institution for which a member of the Board of the Directors is employed. Interest paid to the financial institution totaled $53,550 and $49,966 for the years ended October 31, 2018 and 2017, respectively.

The Network leases residential housing to two current employees, at fair market rental rates. During the years ending October 31, 2018 and 2017, these employees paid a total of $14,590 and $14,923 in rents to the Network, respectively.

NOTE 11 - SUPPLEMENTAL CASH FLOW DISCLOSURES

	2018	2017
Acquisition of property and equipment with long term debt (non-cash)	$ 97,000	$ -
Interest paid	$ 53,550	$ 49,996
Donated property and equipment	$ 85,497	$ -

No income taxes were paid during the years ended October 31, 2018 and 2017.

NOTE 12 - PROGRAM DESCRIPTIONS

Head Start and Early Head Start

The Head Start program provides comprehensive early childhood development services to economically disadvantaged preschool children, children with disabilities and their families. The targeted areas served by the programs include the City of Binghamton, the Villages of Johnson City and Kirkwood, the Towns of Binghamton, Conklin and Kirkwood, and Tioga County. All areas are within New York State.

The Head Start program provisions allow obligated expenditures to be liquidated within 90 days of the end of the program year. While allowable under the contract/agreement, such items are not includable for purposes of financial statement presentation in accordance with generally accepted accounting principles. In addition, program expenditures for contract purposes include items that are properly recorded as prepayments and/or capitalized as property and equipment additions for financial statement purposes.

NOTE 12 - PROGRAM DESCRIPTIONS (Continued)

Early Head Start (EHS) offers a center base, full day early childhood program for families with children six weeks to three years of age. Services include programming in health, nutrition, early education, special services, and family and community partnership. Transportation and meals are provided; income eligibility and age guidelines apply. Early Head Start was launched in 1995 to provide comprehensive child and family development services for low-income pregnant women and families with infants and toddlers ages birth to three years. Early Head Start (EHS) programs were established to provide early, continuous, intensive, and comprehensive child development and family support services on a year-round basis. The purpose of the program is to enhance children's physical, social, emotional, and intellectual development; to support parents' efforts to fulfill their parental roles; and to help parents move toward self-sufficiency.

The following reconciles amounts reported in the financial statements with those reported to the Department of Health and Human Services (via Form SF-425) for Broome County:

Functional expenses before in-kind expenditures, depreciation, and allocated central administrative expense per Statement of Functional Expenses from Broome County Head Start and EHS	$ 3,902,900	
Expenses allocated to central administrative expense required to be reported for Head Start compliance from Broome County Head Start and EHS	334,456	
Capital expenditures for Broome County Head Start/EHS	-	
Program expenses before in-kind expenditures and depreciation per Schedule of Expenditures of Federal Awards for Broome County Head Start and EHS		$ 4,237,356
In-kind expenditures: labor (including Non-GAAP volunteers)	94,119	
In-kind expenditures: goods and services	60	
Local Match	1,024,109	
Total in-kind expenditures and match		1,118,288
Reported on 425 – total outlays Broome County Programs		$ 5,355,644

NOTE 12 - PROGRAM DESCRIPTIONS (Continued)

The following reconciles amounts reported in the financial statements with those reported to the Department of Health and Human Services (via Form SF-425) for Tioga County:

Functional expenses before in-kind expenditures, depreciation, and allocated central administrative expense per Statement of Functional Expenses from Tioga County Head Start and EHS	$ 1,385,125	
Expenses allocated to central administrative expense required to be reported for Head Start compliance from Tioga County Head Start and EHS	118,317	
Program expenses before in-kind expenditures and depreciation per Schedule of Expenditures of Federal Awards for Tioga County Head Start and EHS		$ 1,503,442
In-kind expenditures: labor (including Non-GAAP volunteers)	14,904	
In-kind expenditures: goods and services	377,389	
Total in-kind expenditures and match		392,293
Total program expenditures November 1, 2017- October 31, 2018		1,895,735
Add: program expenditures November 1, 2018 – December 31, 2018 (unaudited)		173,187
Less: program expenditures November 1, 2017- December 31, 2017		(179,615)
Reported on 425 – total outlays for Tioga County programs for period from January 1, 2018 – December 31, 2018		$ 1,889,307

Child Care Resource and Referral (CCR&R)

Child Care Resource and Referral (CCR&R) provides in-depth information on childcare options and community resources are made available to families in Broome and Tioga Counties. Technical assistance, training and support are offered to caregivers and follow-up is conducted on all childcare referrals. Also, childcare data is collected to ascertain whether childcare needs of all communities are being met.

NOTE 12 - PROGRAM DESCRIPTIONS (Continued)

Child and Adult Care Food Program (CACFP)

The Child and Adult Care Food Program provides nutritional training and reimbursement of food costs to registered/licensed family childcare providers service U.S. Department of Agriculture approved means to children in their care.

Special Services

The special services program provides support services for the educational, emotional and physical growth and development of disabled children.

All Other Programs

The Entities have contracted with numerous agencies to provide services, conduct research, and perform seminars relating to childcare and family issues. These agencies include the State of New York, Broome County, Cortland County, Chenango County, Delaware County, Tioga County, Binghamton City School District, Johnson City School District, Union Endicott School District, Cortland School District, United Health Services, Etna, and STAR Group. Any program and administrative expenses not covered by grants and contractual agreements are covered by the Entities themselves.

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED OCTOBER 31, 2018

Funding Source/Program Title	Federal CFDA Number	Pass Through Grantor Number		Expenditures of Federal Funds
U.S. Department of Agriculture				
Passed through NYS Department of Health				
Child and Adult Care Food Program - HS	10.558	2005	$	376,336
Child and Adult Care Food Program - Providers	10.558	2006		460,677
Passed through NYS Education Department				
Summer Food Program	10.558	030200880173		4,989
Sub-total CFDA 10.558				842,002
Passed through Hunger Solutions New York				
Nutrition Outreach and Education Program	10.561	C021045		43,856
U.S. Department of Health and Human Services				
Direct awards:				
New Pathways for Fathers	93.086			437,263
Head Start	93.600			5,736,548
Passed through NYS Department of Social Services				
Child Care and Development Block Grant	93.575	C026632		427,061
U.S. Department of Housing and Urban Development				
Passed through City of Binghamton				
Emergency Solutions Grant	14.231	FY 41		27,097
TOTAL FEDERAL EXPENDITURES			$	7,513,827

See accompanying notes to schedule of expenditures of federal awards

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED OCTOBER 31, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Family Enrichment Network, Inc. and its affiliate is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

NOTE 2 - SUBRECIPIENTS

There were no pass-through amounts to subrecipients associated with the programs appearing in the accompanying schedule of expenditures of federal awards.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

To the Board of Directors
Family Enrichment Network, Inc.
Johnson City, New York 13790

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Family Enrichment Network, Inc. and its affiliate (the organization), which comprise the statement of financial position as of October 31, 2018 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 19, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family Enrichment Network, Inc. and its affiliate's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davidson, Fox + Company, LLP

Binghamton, New York
February 19, 2019

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Independent Auditor's Report

To the Board of Directors
Family Enrichment Network, Inc.
Johnson City, New York 13790

Report on Compliance for Each Major Federal Program

We have audited the compliance of Family Enrichment Network, Inc. and its affiliate with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Family Enrichment Network's major federal programs for the year ended October 31, 2018. Family Enrichment Network, Inc. and its affiliate's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Family Enrichment Network, Inc. and its affiliate's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Family Enrichment Network, Inc. and its affiliate's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our compliance audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Family Enrichment Network, Inc. and its affiliate's compliance.

Opinion on Each Major Federal Program

In our opinion, Family Enrichment Network, Inc. and its affiliate complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2018.

Report on Internal Control over Compliance

The management of Family Enrichment Network, Inc. and its affiliate is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Family Enrichment Network, Inc. and its affiliate's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Family Enrichment Network, Inc. and its affiliate’s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charges with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Davidson, Fox + Company, LLP

Binghamton, New York
February 19, 2019

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED OCTOBER 31, 2018

I. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Family Enrichment Network, Inc. and Consolidated Affiliate.

2. There were no significant deficiencies disclosed during the audit of the financial statements as reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of Family Enrichment Network, Inc. were disclosed during the audit.

4. The auditors' report on compliance for the major federal award programs for Family Enrichment Network, Inc. and Consolidated Affiliate expresses an unmodified opinion.

5. Audit findings that are required to be reported in accordance with Section the Uniform Guidance are reported in this schedule.

6. The programs tested as major programs included:

   Department of Health & Human Services, Head Start: CFDA #93.600
   Department of Health & Human Services, Child Care and Development Block Grant: CFDA #93.575
   Department of Agriculture, Child and Adult Food Care Program: CFDA #10.558

7. The threshold for distinguishing Types A and B programs was $750,000.

8. Family Enrichment Network, Inc. and Consolidated Affiliate were determined to be a low-risk auditee.

II. FINANCIAL STATEMENT FINDINGS – CURRENT YEAR

None noted.

III. FINANCIAL STATEMENT FINDINGS – PRIOR YEAR

None noted.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - CURRENT YEAR

None noted.

IV. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - PRIOR YEAR

None noted.