FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFLIATE

FINANCIAL STATEMENTS

OCTOBER 31, 2013 AND 2012
AND FOR THE YEARS THEN ENDED

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFLIATE

OCTOBER 31, 2013 AND 2012

CONTENTS

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 statement of financial position of Family Enrichment Network, Inc. (a nonprofit organization) and its affiliate as of October 31, 2013, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. The prior year summarized comparative information has been derived from the consolidated October 31, 2012 financial statements of Family Enrichment Network, Inc. and its affiliate and, in our report dated February 11, 2013 we expressed an unmodified opinion on those statements.

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 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.

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, 2013, 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* 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 other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements and certain other 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2014, 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 18, 2014

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FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
OCTOBER 31, 2013 AND 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 190,934	$ 188,244
Grants receivable	331,695	576,465
Program service fees receivable	832,334	680,609
Inventory	2,495	1,599
Prepaid expenses	-	1,384
TOTAL CURRENT ASSETS	1,357,458	1,448,301
PROPERTY AND EQUIPMENT		
Building and improvements	3,120,523	2,988,793
Furniture and equipment	495,743	454,865
Vehicles	829,891	885,891
Land	78,587	78,587
	4,524,744	4,408,136
Less: accumulated depreciation	(1,925,353)	(1,768,970)
TOTAL PROPERTY AND EQUIPMENT, net	2,599,391	2,639,166
OTHER ASSETS		
Loan acquisition costs, net of accumulated amortization of $2,440 and $1,603	5,925	6,761
	$ 3,962,774	$ 4,094,228

See accompanying notes to financial statements

LIABILITIES AND NET ASSETS

		2013		2012
CURRENT LIABILITIES				
Current portion of long-term debt	$	113,855	$	98,096
Lines of credit		98,100		116,000
Accounts payable		279,619		268,568
Accrued expenses		297,362		336,767
Deferred revenue		78,025		425
TOTAL CURRENT LIABILITIES		866,961		819,856
LONG-TERM LIABILITIES				
Long-term debt, net of current portion		744,988		811,150
NET ASSETS				
Unrestricted		2,350,825		2,463,222
	$	3,962,774	$	4,094,228

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED OCTOBER 31, 2013 AND 2012

	2013	2012
SUPPORT AND REVENUE		
Government grants		
Head Start	$ 2,629,367	$ 2,804,055
Early Head Start	1,130,685	1,170,756
Child and Adult Food Grant - HS	273,596	295,456
Child and Adult Food Grant - Providers	458,338	441,656
Child Care Resource and Referral	514,811	469,552
Healthy Marriage	-	230,924
Early Reading First	159,879	388,055
New York State grants	365,610	255,312
Other	75,453	62,763
Program service revenue		
Universal Pre-Kindergarten		
Binghamton City Schools	108,000	108,000
Binghamton Special Education	41,400	42,300
Johnson City Schools	181,288	181,288
Union-Endicott Special Education	58,444	58,317
Day care	67,857	77,341
Special services	2,463,648	1,976,645
Other program fees	170,500	116,598
Contributions and fundraising	55,481	127,732
Interest income	318	411
Loss on disposal of property and equipment	(828)	-
In-kind contributions	164,836	250,061
TOTAL SUPPORT AND REVENUE	8,918,683	9,057,222
EXPENSES		
Program services	8,959,797	9,051,538
Support services	71,283	49,408
TOTAL EXPENSES	9,031,080	9,100,946
CHANGE IN NET ASSETS	(112,397)	(43,724)
NET ASSETS, beginning of year	2,463,222	2,506,946
NET ASSETS, end of year	$ 2,350,825	$ 2,463,222

See accompanying notes to financial statements

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED OCTOBER 31, 2013
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED OCTOBER 31, 2012

		Program Services							Support Services					
		Head Start	Early Head Start	CCR&R	CACFP	Special Services	Other Programs	Total Programs	Central Administrative	Fundraising	Total Support	Total 2013	Total 2012	
(1)	Salaries and wages	$ 1,618,147	$ 712,124	$ 273,653	$ 87,285	$ 1,637,885	$ 716,292	$ 5,045,386	$ 491,416	$ 37,989	$ 529,405	$ 5,574,791	$ 5,426,768	**(1)**
(2)	Employee benefits and payroll expenses	368,894	169,491	66,929	31,991	320,655	157,901	1,115,861	150,927	10,857	161,784	1,277,645	1,244,595	**(2)**
(3)	Specific assistance to individuals	131	-	7,943	359,945	-	12,661	380,680	372	-	372	381,052	416,535	**(3)**
(4)	Supplies	29,412	27,801	6,231	222,851	14,675	60,211	361,181	15,701	11,893	27,594	388,775	484,893	**(4)**
(5)	Telephone	8,036	2,668	123	154	3,242	2,776	16,999	6,110	79	6,189	23,188	29,312	**(5)**
(6)	Postage and shipping	2,021	526	7,295	1,305	3,016	670	14,833	9,922	123	10,045	24,878	24,090	**(6)**
(7)	Occupancy	129,551	29,094	6,863	103	39,767	16,945	222,323	39,129	1,035	40,164	262,487	247,790	**(7)**
(8)	Equipment rental and maintenance	2,171	-	570	-	449	3,493	6,683	2,360	-	2,360	9,043	20,197	**(8)**
(9)	Printing and publications	6,693	1,376	3,537	164	1,688	1,343	14,801	11,542	-	11,542	26,343	30,950	**(9)**
(10)	Local travel	6,843	4,964	7,064	2,006	26,324	10,564	57,765	2,365	495	2,860	60,625	46,207	**(10)**
(11)	Out-of-town travel	1,398	398	4,040	596	136	3,006	9,574	1,814	233	2,047	11,621	10,730	**(11)**
(12)	Consultants	-	-	-	-	-	-	-	-	-	-	-	4,034	**(12)**
(13)	Contractual	20,850	19,325	4,608	4,442	158,680	15,856	223,761	36,780	-	36,780	260,541	221,468	**(13)**
(14)	Insurance	44,716	3,963	421	77	1,661	1,004	51,842	8,513	77	8,590	60,432	55,813	**(14)**
(15)	Recruitment and advertising	53	-	-	-	-	11,371	11,424	11,626	1,200	12,826	24,250	16,218	**(15)**
(16)	Dues and memberships	-	-	6,261	165	16	100	6,542	2,295	-	2,295	8,837	8,781	**(16)**
(17)	Meetings and conferences	-	-	-	-	-	-	-	2,953	-	2,953	2,953	3,466	**(17)**
(18)	Parent fund	3,000	1,000	-	-	-	12,452	16,452	-	-	-	16,452	9,931	**(18)**
(19)	Staff development	32,500	22,990	6,164	2,205	4,249	815	68,923	1,074	-	1,074	69,997	59,930	**(19)**
(20)	Pupil transportation	85,440	15,600	-	-	780	3,386	105,206	561	-	561	105,767	142,484	**(20)**
(21)	Field trips	967	209	-	-	387	26	1,589	-	-	-	1,589	2,105	**(21)**
(22)	Bank charges	-	-	-	-	4,195	13,085	17,280	-	43	43	17,323	16,104	**(22)**
(23)	Employee recognition	-	-	-	-	-	-	-	435	-	435	435	145	**(23)**
(24)	Legal and accounting	-	-	-	-	6,900	6,476	13,376	23,928	-	23,928	37,304	46,145	**(24)**
(25)	Subtotal before non-cash expenditures	2,360,823	1,011,529	401,702	713,289	2,224,705	1,050,433	7,762,481	819,823	64,024	883,847	8,646,328	8,568,691	**(25)**
(26)	In-kind expenditures	2,274	162,562	-	-	-	-	164,836	-	-	-	164,836	250,061	**(26)**
(27)	Depreciation and amortization	66,884	28,657	11,380	20,208	63,027	29,759	219,916	-	-	-	219,916	282,194	**(27)**
(28)	Subtotal	2,429,981	1,202,748	413,082	733,497	2,287,732	1,080,192	8,147,233	819,823	64,024	883,847	9,031,080	9,100,946	**(28)**
(29)	Central administrative costs	262,301	115,550	45,321	14,930	256,789	117,673	812,564	(819,823)	7,259	(812,564)	-	-	**(29)**
(30)	Total Expenses	$ 2,692,282	$ 1,318,298	$ 458,403	$ 748,427	$ 2,544,521	$ 1,197,865	$ 8,959,797	$ -	$ 71,283	$ 71,283	$ 9,031,080	$ 9,100,946	**(30)**

See accompanying notes to financial statements

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (112,397)	$ (43,724)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	219,916	282,194
Loss on disposal of property and equipment	828	-
(Increase) decrease in		
Grants receivable	244,770	(108,655)
Program service fees receivable	(151,725)	(121,858)
Inventory	(896)	9
Prepaid expenses	1,384	(1,384)
Increase (decrease) in		
Accounts payable	11,051	109,996
Accrued expenses	(39,405)	36,103
Deferred income	77,600	(76,095)
NET CASH PROVIDED BY OPERATING ACTIVITIES	251,126	76,586
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(181,133)	(90,819)
Proceeds from disposal of property and equipment	1,000	-
NET CASH USED BY INVESTING ACTIVITIES	(180,133)	(90,819)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayments) on lines of credit	(17,900)	31,000
Principal payments on long-term debt obligations	(99,403)	(95,983)
Proceeds from new borrowings	49,000	-
NET CASH USED BY FINANCING ACTIVITIES	(68,303)	(64,983)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,690	(79,216)
CASH AND CASH EQUIVALENTS, beginning of year	188,244	267,460
CASH AND CASH EQUIVALENTS, end of year	$ 190,934	$ 188,244

See accompanying notes to financial statements

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

<u>Principles of Consolidation</u>

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.

<u>Basis of Presentation</u>

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.

<u>Basis of Accounting</u>

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.

<u>Cash and Cash Equivalents</u>

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 $219,916 and $282,194 as of October 31, 2013 and 2012, 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 Healthy Marriage 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, 2013 and 2012 was $164,836 and $250,061, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Network also received donations of non-professional volunteer services valued at $116,246 and $161,569 during the year ended October 31, 2013 and 2012, 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 $24,250 and $16,218 for the years ended October 31, 2013 and 2012, respectively.

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.

Generally accepted accounting principles contain a two-step approach to recognizing and measuring uncertain tax positions. The Entities consider many factors when evaluating and estimating tax positions, which may require periodic adjustments and which may not accurately anticipate actual outcomes. Based on guidance set forth in professional standards, the Entities have not recorded any liabilities for uncertain tax positions or any related interest and penalties. With few exceptions, the Entities are no longer subject to federal or state income tax examinations by tax authorities for years before 2009.

Subsequent Events

The Entities have evaluated events and transactions that have occurred between November 1, 2013 and February 18, 2014, 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 2012 financial statements have been reclassified to conform to the presentation for 2013. Net income as previously reported was not impacted by this reclassification.

NOTE 2 - ACQUISITION

In March 2012, the Entities acquired Chenango County Child Care Coordinating Council, Inc. (CCCCCC), and merged it into Family Enrichment Network. The purpose of the acquisition was to assume operation of CCCCCC's Child Care Resource and Referral program in Norwich, NY. There was no consideration paid to acquire CCCCCC, however the acquisition did result in a net contributions to the Entities of $69,882.

NOTE 3 - ACCOUNTS RECEIVABLE

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

	2013	2012
Binghamton City Schools – UPK	$ 25,500	$ 30,600
Union Endicott Schools – UPK	-	11,689
Johnson City Schools – UPK	36,258	36,258
Special Services	770,576	602,062
Total	$ 832,334	$ 680,609

NOTE 3 - ACCOUNTS RECEIVABLE (Continued)

Grants receivable consisted of the following at October 31:

	2013	2012
CACFP Food Reimbursement – Head Start	$ 33,518	$ 29,407
CACFP Food Reimbursement – Providers	37,997	37,470
Child Care Referral & Resource	-	156,186
Courthouse	2,638	-
Infant Toddler Program	8,136	-
Head Start	-	145,116
Early Head Start	59,849	30,714
Early Reading First	-	69,638
Early Achiever	4,808	-
Navigator	12,724	-
NOEP	17,382	-
NYS Office of Children & Family Services – Kinship Care	99,881	39,465
Other Grant Awards	54,762	68,469
Total	$ 331,695	$ 576,465

NOTE 4 - LINES OF CREDIT

The Entities have a $250,000 line of credit with a local lending institution. Interest on outstanding borrowings is payable monthly at prime plus 0.50% (prime was 3.25% October 31, 2013), and are collateralized by substantially all assets of the Entities. Borrowings against this line totaled $98,100 and $116,000 at October 31, 2013 and 2012, respectively.

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 3.25% at October 31, 2013). Borrowings against this line totaled $-0- at October 31, 2013 and 2012.

NOTE 5 - LONG-TERM DEBT

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

	2013	2012
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.	$ 721,745	$ 798,745
Note payable to a local lending institution, in the original amount of $17,000, in 60 monthly installments of $283, including interest at 4.25%, through May 2015.	5,383	8,783
Note payable to a local lending institution, in the original amount of $19,000, in 60 monthly installments of $377, including interest at 7%, through July 2013.	-	3,646
Note payable to a local lending institution, in the original amount of $20,000, in 36 monthly installments of $556, including interest at 4.25%, through October 2014.	6,667	13,333
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 2017.	77,901	84,739
Note payable to a local lending institution, in the original amount of $6,000, in 36 monthly installments of $177, including interest at 3.79%, through January 2016.	4,563	-
Note payable to a local lending institution, in the original amount of $15,000, in 36 monthly installments of $417, not including interest at 3.95%, through October 2016.	14,584	-
Note payable to a local lending institution, in the original amount of $28,000, in 48 monthly installments of $639, including interest at 4.48%, through October 2017.	28,000	-
Subtotal	858,843	909,246
Less: current portion	(113,855)	(98,096)
Long-term debt	$ 744,988	$ 811,150

NOTE 5 - LONG-TERM DEBT (Continued)

All of the notes listed above are with the same 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:

2014	$	113,855
2015		111,887
2016		114,365
2017		116,049
2018		115,517
Thereafter		287,170
Total	$	858,843

The Entities' loan and lines of credit agreements contain various restrictions and covenants. The more pertinent of these restrictions require the delivery of annual audited financial statements within 90 days after the end of the close of the fiscal year. For the year ended October 31, 2013, the financial institution has waived this requirement.

NOTE 6 - LEASE COMMITMENTS

Operating Leases

The Entities are party to a non-cancelable operating lease agreement for a parking lot. The lease renews annually at the discretion of the lessee and lessor.

A summary of non-cancelable operating lease commitments is as follows:

Year Ending October 31,		Amount
2014	$	6,000

The Entities are involved in a month-to-month lease agreement for office space in Owego, NY. The total rent expense paid under this lease was $5,250 for each of the years ended October 31, 2013 and 2012.

The Entities are involved in other month-to-month lease agreements for office space in Cortland, NY. The total rent expenses paid under these leases were $18,939 and $27,123 for the years ended October 31, 2013 and 2012, respectively.

NOTE 7 - CONCENTRATIONS

Revenues

The Entities realized approximately 42% and 46% of its revenues from United States Department of Health and Human Services for the years ended October 31, 2013 and 2012, respectively.

Credit Risk

The Entities maintain cash balances at a financial institution located in Binghamton, New York. Accounts at this institution are insured by the Federal Deposit Insurance Corporation for up to $250,000. As of October 31, 2013, the Entities had no uninsured cash.

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.

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.

NOTE 8 - EMPLOYEE BENEFIT PLANS (Continued)

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, 2013 and 2012, the Board of Directors authorized a matching contribution of up to 2% of employees' eligible compensation resulting in contributions totaling $33,513 and $33,027 for program services employees and $6,498 and $8,227 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.

During 2008, the Entities received notification that they may be liable for certain losses that were sustained when they were a member of a workers' compensation insurance trust (the Trust). The Entities pulled out of the trust in 2004. The Trust is currently seeking damages in the amount of $143,951 for the Entities' alleged pro rata portion of the cumulative deficit of the trust. At October 31, 2013 and 2012, the preliminary estimate made by the trust is that the Entities' portion of the under-funding is approximately $68,274 for the years 1999 through 2002. The accompanying financial statements reflect this estimated liability as an accrued expense. Any adjustments will be recognized in future periods when the final settlement is determined. During 2013, the Entities were not advised of any changes to this estimated liability.

NOTE 10 - RELATED PARTY TRANSACTIONS

During the year ended October 31, 2013, the Entities signed a lease agreement with a company owned by a member of the Board of Directors. The Entities paid a total of $1,750 in 2013 under this lease agreement.

During the year ended October 31, 2013 the Entities paid $8,970 for various construction projects to a company owned by a member of the Board of Directors.

NOTE 11 - SUPPLEMENTAL CASH FLOW DISCLOSURES

Non-cash Investing and Financing Activities

The Entities acquired a building using borrowings of $87,000 during the year ended October 31, 2012.

Cash Payments for Interest and Income Taxes

Cash payments for interest were as follows for the years ended October 31, 2013:

	2013	2012
Interest	$ 56,318	$ 60,322

No income taxes were paid during the years ended October 31, 2013 and 2012.

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, and the Towns of Binghamton, Conklin and Kirkwood. All areas are within New York State.

The Head Start program provisions allow certain expenditures to be incurred and 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.

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFLIATE

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2013 AND 2012
(See independent auditor's report)

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):

Functional expenses before in-kind expenditures, depreciation, and allocated central administrative expense per Statement of Functional Expenses	$ 3,372,352	
Program Income from sale of property and equipment	1,000	
Expenses allocated to central administrative expense required to be reported for Head Start compliance	377,851	
Capital expenditures for Head Start/ Early Head Start	530	
Indirect adjustments for capitalization	9,319	
Program expenses before in-kind expenditures and depreciation per Schedule of Expenditures of Federal Awards		3,761,052
In-kind expenditures: labor (including Non-GAAP volunteers)	118,686	
In-kind expenditures: goods and services	263,330	
Local Match	735,256	
Total in-kind expenditures and match		1,117,272
Reported on 425 – total outlays		$ 4,878,324

NOTE 12 - PROGRAM DESCRIPTIONS (Continued)

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.

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.

NOTE 13 - SUBSEQUENT EVENTS

During the year ending October 31, 2013, the Network acquired a residential two-family dwelling in Johnson City, New York with the intentions of remodeling and leasing it under the Section 8 housing choice voucher program of the United States Department of Housing and Urban Development (HUD). In November and December 2013, the Network signed leases with two tenants and entered into a Housing Assistance Payments (HAP) contract with the Binghamton Housing Authority, who will make housing assistance payments to the Network on behalf of the tenants.

**FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFILIATE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED OCTOBER 31, 2013**

Funding Source/Program Title	Federal CFDA Number	Pass Through Grantor Number		Expenditure of Federal Funds
U.S. Department of Agriculture				
Passed through NY State Department of Health				
Child and Adult Care Food Program - HS	10.558	2005	$	273,596
Child and Adult Care Food Program - Providers	10.558	2006		447,638
Nutrition Outreach and Education Program	10.558	2010-11		64,757
Sub-total CFDA 10.558				785,991
U.S. Department of Health and Human Services				
Passed through NYS Department of Social Services				
Child Care and Development Block Grant	93.575	C025172		505,600
Passed through NYS Office of Children and Family Services				
Kinship Caregiver Program	93.558	C024357		97,182
Head Start	93.600			3,760,052
TOTAL FEDERAL EXPENDITURES			$	5,148,825

See accompanying notes to schedule of expenditures of federal awards

**FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFLIATE**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED OCTOBER 31, 2013**

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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.

INDEPENDENT AUDITORS' 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*

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, 2013 and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 18, 2014.

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.

INDEPENDENT AUDITORS' 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 18, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance Family Enrichment Network, Inc. and its affiliate with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2013. 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

Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Family Enrichment Network, Inc. and its affiliate's management.

Auditor's Responsibility

Our responsibility is to express an opinion on Family Enrichment Network, Inc. and its affiliate's compliance with the applicable compliance requirements based on our compliance audit.

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and Circular A-133 require that we plan and perform the compliance 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. A compliance audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination on Family Enrichment Network, Inc. and its affiliate's compliance with those requirements.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Opinion

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, 2013.

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 requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our compliance audit, we considered Family Enrichment Network, Inc. and its affiliate's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our compliance auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Circular A-133, 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.

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, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Restricted Use

This report is intended solely for the information and use of the Board of Directors, management of Family Enrichment Network, Inc. and its affiliate, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entities internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

Davidson, Fox & Company, LLP

Binghamton, New York
February 18, 2014

FAMILY ENRICHMENT NETWORK, INC.
AND CONSOLIDATED AFFLIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED OCTOBER 31, 2013

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 510(a) of OMB Circular A-133 are reported in this schedule.

6. The programs tested as major programs included:
   Department of Health & Human Services, Head Start: CFDA #93.600

7. The threshold for distinguishing Types A and B programs was $300,000.

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 D QUESTIONED COSTS - PRIOR YEAR

None noted.