

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

**FINANCIAL STATEMENTS**

**OCTOBER 31, 2009 AND 2008  
AND FOR THE YEARS THEN ENDED**

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

**OCTOBER 31, 2009 AND 2008**

**C O N T E N T S**

	<b><u>P A G E</u></b>
Independent Auditor's Report	1 - 2
<b>FINANCIAL STATEMENTS</b>	
Consolidated Statements of Financial Position as of October 31, 2009 and 2008	3
Consolidated Statement of Activities for the Year Ended October 31, 2009 with Comparative Totals for October 31, 2008	4
Consolidated Statement of Functional Expenses for the Year Ended October 31, 2009 with Comparative Totals for October 31, 2008	5
Consolidated Statements of Cash Flows for the Years Ended October 31, 2009 and 2008	6
Notes to Consolidated Financial Statements	7 - 18
Schedule of Expenditures of Federal Awards	19
Notes to Schedule of Expenditures of Federal Awards	20
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 <i>Government Auditing Standards</i>	21 - 22
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	23 - 24
Schedule of Findings and Questioned Costs	25 - 26

## INDEPENDENT AUDITOR'S REPORT

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

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, 2009, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The prior year summarized comparative information has been derived from Family Enrichment Network, Inc. and its affiliate's 2008 consolidated financial statements. These financial statements were audited by another accounting firm, whose report dated January 22, 2009, expressed an unqualified opinion on those financial statements.

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 that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2010, 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* and important for assessing the results of our audit.

## INDEPENDENT AUDITOR'S REPORT

(Continued)

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Family Enrichment Network, Inc. and its affiliate taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Davidson, Fox + Company, LLP

Binghamton, New York

January 27, 2010

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

**STATEMENTS OF FINANCIAL POSITION  
OCTOBER 31, 2009 AND 2008**

**ASSETS**

	<u>2009</u>	<u>2008</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 26,792	\$ 36,990
Grants receivable	601,090	334,219
Program service fees receivable	287,227	281,301
Inventory	1,931	3,096
Prepaid expenses	<u>-</u>	<u>100</u>
<b>TOTAL CURRENT ASSETS</b>	<u>917,040</u>	<u>655,706</u>
 <b>PROPERTY AND EQUIPMENT</b>		
Building and improvements	2,413,128	2,283,900
Furniture and equipment	256,373	175,415
Vehicles	782,307	708,538
Land	<u>67,325</u>	<u>48,000</u>
	3,519,133	3,215,853
Less: accumulated depreciation	<u>(1,132,709)</u>	<u>(1,049,879)</u>
<b>TOTAL PROPERTY AND EQUIPMENT, net</b>	<u>2,386,424</u>	<u>2,165,974</u>
 <b>OTHER ASSETS</b>		
Loan acquisition costs, net of accumulated amortization of \$1,409 and \$1,077	8,532	8,864
Vehicle held for sale	<u>20,509</u>	<u>-</u>
<b>TOTAL OTHER ASSETS</b>	<u>29,041</u>	<u>8,864</u>
	<u>\$ 3,332,505</u>	<u>\$ 2,830,544</u>

See accompanying notes to financial statements

## LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 86,000	\$ 239,386
Lines of credit	54,634	120,000
Bank overdraft	10,868	117,534
Accounts payable	481,663	231,744
Accrued expenses	243,678	185,041
Deferred grant income	<u>2,500</u>	<u>66,463</u>
 <b>TOTAL CURRENT LIABILITIES</b>	 <u>879,343</u>	 <u>960,168</u>
 <b>LONG-TERM LIABILITIES</b>		
Long-term debt, net of current portion	<u>947,323</u>	<u>844,873</u>
 <b>NET ASSETS</b>		
Unrestricted	1,505,224	1,022,293
Temporarily restricted	<u>615</u>	<u>3,210</u>
 <b>TOTAL NET ASSETS</b>	 <u>1,505,839</u>	 <u>1,025,503</u>
	\$ <u><u>3,332,505</u></u>	\$ <u><u>2,830,544</u></u>

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

**CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED OCTOBER 31, 2009  
WITH COMPARATIVE TOTALS FOR OCTOBER 31, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2009</u>	<u>2008</u>
<b>SUPPORT AND REVENUE</b>				
Government grants				
Head Start	\$ 2,761,479	-	2,761,479	2,622,060
Head Start AARA	85,609	-	85,609	-
Child and Adult Food Grant - HS	186,280	-	186,280	180,494
Child and Adult Food Grant - Providers	496,142	-	496,142	551,178
Child Care Resource and Referral	405,030	-	405,030	418,735
Department of Education	241,511	-	241,511	-
Healthy Marriage	220,988	-	220,988	294,814
New York State grants	567,992	-	567,992	525,006
Other	118,918	-	118,918	391,146
Program service revenue				
Universal Pre-Kindergarten				
Binghamton City Schools	108,000	-	108,000	108,000
Binghamton Special Education	12,600	-	12,600	-
Johnson City Schools	210,169	-	210,169	211,710
Union-Endicott Special Education	12,154	-	12,154	-
Day care	167,509	-	167,509	237,066
Special services	1,287,945	-	1,287,945	1,035,798
Other program fees	149,343	-	149,343	-
Contributions and fundraising	182,363	-	182,363	162,523
Interest income	265	-	265	361
Loss on asset disposal	-	-	-	(23,955)
In-kind contributions	313,474	-	313,474	723,187
Net assets released from restrictions	<u>2,595</u>	<u>(2,595)</u>	<u>-</u>	<u>-</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>7,530,366</u>	<u>(2,595)</u>	<u>7,527,771</u>	<u>7,438,123</u>
<b>EXPENSES</b>				
Program services	6,973,797	-	6,973,797	7,298,441
Support services	<u>73,638</u>	<u>-</u>	<u>73,638</u>	<u>48,102</u>
<b>TOTAL EXPENSES</b>	<u>7,047,435</u>	<u>-</u>	<u>7,047,435</u>	<u>7,346,543</u>
<b>CHANGE IN NET ASSETS</b>	482,931	(2,595)	480,336	91,580
<b>NET ASSETS, beginning of year</b>	<u>1,022,293</u>	<u>3,210</u>	<u>1,025,503</u>	<u>933,923</u>
<b>NET ASSETS, end of year</b>	\$ <u>1,505,224</u>	\$ <u>615</u>	\$ <u>1,505,839</u>	\$ <u>1,025,503</u>

See accompanying notes to financial statements

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED OCTOBER 31, 2009  
WITH COMPARATIVE TOTALS FOR OCTOBER 31, 2008**

	Program Services					Support Services			Total 2009	Total 2008		
	Head Start	CCR&R	CACFP	Special Services	Other Programs	Total Programs	Central Administrative	Fundraising				Total Support
(1) Salaries and wages	\$ 1,624,973	\$ 199,481	\$ 106,320	\$ 700,375	\$ 871,237	\$ 3,502,386	\$ 392,625	\$ 33,753	\$ 426,378	\$ 3,928,764	\$ 3,784,209	(1)
(2) Employee benefits and payroll expenses	384,097	50,508	24,887	126,136	182,681	768,309	132,640	4,372	137,012	905,321	766,425	(2)
(3) Specific assistance to individuals	3,058	24,995	408,032	-	11,268	447,353	-	-	-	447,353	487,116	(3)
(4) Supplies	59,972	2,177	134,118	35,665	180,549	412,481	41,242	25,274	66,516	478,997	418,791	(4)
(5) Telephone	9,604	3,131	140	948	3,614	17,437	6,850	-	6,850	24,287	23,510	(5)
(6) Postage and shipping	2,546	7,024	1,594	1,729	1,872	14,765	7,077	319	7,396	22,161	21,557	(6)
(7) Occupancy	151,819	6,193	-	14,107	8,252	180,371	42,501	6	42,507	222,878	262,430	(7)
(8) Equipment rental and maintenance	8,034	6,952	769	405	402	16,562	10,342	1	10,343	26,905	35,967	(8)
(9) Printing and publications	3,744	2,296	253	1,427	2,440	10,160	24,769	-	24,769	34,929	34,376	(9)
(10) Local travel	6,043	3,668	1,389	10,416	16,682	38,198	777	247	1,024	39,222	45,901	(10)
(11) Out-of-town travel	912	1,765	2,009	342	20,827	25,855	1,179	-	1,179	27,034	45,399	(11)
(12) Consultants	5,674	500	-	-	-	6,174	3,136	-	3,136	9,310	5,035	(12)
(13) Contractual	-	25	7,751	158,629	13,020	179,425	37,040	-	37,040	216,465	287,303	(13)
(14) Insurance	38,392	-	-	74	183	38,649	14,782	-	14,782	53,431	39,355	(14)
(15) Recruitment and advertising	621	-	-	876	14,584	16,081	10,130	-	10,130	26,211	25,077	(15)
(16) Dues and memberships	-	1,398	-	-	-	1,398	743	15	758	2,156	4,182	(16)
(17) Meetings and conferences	-	-	-	-	3,394	3,394	276	-	276	3,670	5,404	(17)
(18) Parent fund	-	-	-	-	8,323	8,323	-	-	-	8,323	3,000	(18)
(19) Staff development	15,427	630	391	3,183	7,703	27,334	3,254	-	3,254	30,588	34,871	(19)
(20) Pupil transportation	84,894	-	-	-	451	85,345	-	-	-	85,345	139,237	(20)
(21) Field trips	1,210	-	-	223	637	2,070	-	-	-	2,070	1,930	(21)
(22) Bank charges	-	-	-	-	23,038	23,038	947	547	1,494	24,532	39,651	(22)
(23) Employee recognition	-	-	-	-	500	500	117	-	117	617	1,588	(23)
(24) Legal and accounting	-	-	-	5,419	9,002	14,421	33,189	-	33,189	47,610	29,622	(24)
(25) Bad debt expense	-	-	-	-	44	44	-	-	-	44	13,428	(25)
(26) Subtotal before non-cash expenditures	2,401,020	310,743	687,653	1,059,954	1,380,703	5,840,073	763,616	64,534	828,150	6,668,223	6,555,364	(26)
(27) In-kind expenditures	183,475	-	-	-	62,000	245,475	-	-	-	245,475	723,187	(27)
(28) Depreciation and amortization	54,983	7,116	15,747	24,273	31,618	133,737	-	-	-	133,737	67,992	(28)
(29) Subtotal	2,639,478	317,859	703,400	1,084,227	1,474,321	6,219,285	763,616	64,534	828,150	7,047,435	7,346,543	(29)
(30) Central administrative costs	339,616	44,812	22,893	152,798	194,393	754,512	(763,616)	9,104	(754,512)	-	-	(30)
(31) Total Expenses	\$ 2,979,094	\$ 362,671	\$ 726,293	\$ 1,237,025	\$ 1,668,714	\$ 6,973,797	\$ -	\$ 73,638	\$ 73,638	\$ 7,047,435	\$ 7,346,543	(31)

See accompanying notes to financial statements

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED OCTOBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 480,336	\$ 91,580
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	133,737	130,347
Loss on asset disposal	-	23,955
Donated assets	(67,999)	-
(Increase) decrease in		
Grants receivable	(266,871)	(68,184)
Program service fees receivable	(5,926)	-
Inventory	1,165	1,567
Prepaid expenses	100	23,422
Increase (decrease) in		
Bank overdraft	(106,666)	95,432
Accounts payable	249,919	(27,087)
Accrued expenses	58,637	(121,910)
Deferred grant income	<u>(63,963)</u>	<u>59,963</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>412,469</u>	<u>209,085</u>
 <b>CASH FLOWS FOR INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(285,365)</u>	<u>(174,551)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowings (repayments) on lines of credit	(65,366)	20,000
Proceeds from issuance of new debt	-	19,000
Principal payments on long-term debt obligations	<u>(71,936)</u>	<u>(71,504)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(137,302)</u>	<u>(32,504)</u>
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	 (10,198)	 2,030
 <b>CASH AND CASH EQUIVALENTS, beginning of year</b>	 <u>36,990</u>	 <u>34,960</u>
 <b>CASH AND CASH EQUIVALENTS, end of year</b>	 \$ <u><u>26,792</u></u>	 \$ <u><u>36,990</u></u>

See accompanying notes to financial statements

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

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2009 AND 2008**

(See independent auditor's report)

**ORGANIZATION**

Nature of Business

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 Broome County and Tioga County 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.

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

**NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2009 AND 2008  
(See independent auditor's report)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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:

	<u>Years</u>
Vehicles	5
Equipment	5 - 15
Building and improvements	5 - 30

The provision for depreciation was \$133,737 and \$130,347 as of October 31, 2009 and 2008, 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2009 AND 2008**

(See independent auditor's report)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2009 and 2008 was \$245,475 and \$723,187, respectively.

The Network also received donations of non-professional volunteer services valued at \$51,402 during the year ended October 31, 2009. 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 \$26,211 and \$25,077 for the years ended October 31, 2009 and 2008, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2009 AND 2008**

(See independent auditor's report)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Entities' financial statements for the year ended October 31, 2008, from which the summarized information was obtained.

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.

Management has elected to defer the application of ASC Topic 740-10-65-1, *Income Taxes*, for accounting for uncertainty in income taxes. The Entities will continue to follow the general accounting for commitments and contingencies under ASC Topics 440 - *Commitments*, and 450 - *Contingencies*, until it adopts the new treatment.

Subsequent Events

The Entities have evaluated events and transactions that have occurred between November 1, 2009 and January 27, 2010, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements. See Note 13 for significant subsequent events.

Reclassifications

Certain amounts from the 2008 financial statements have been reclassified to conform to the presentation for 2009. Net income as previously reported was not impacted by this reclassification.

NOTE 2 - ACCOUNTS RECEIVABLE

Program services receivable consisted of the following at October 31:

	<u>2009</u>	<u>2008</u>
Binghamton City Schools - UPK	\$ 10,800	\$ 10,800
Special Services	<u>276,427</u>	<u>270,501</u>
Total	\$ <u>287,227</u>	\$ <u>281,301</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2009 AND 2008**

(See independent auditor's report)

NOTE 2 - ACCOUNTS RECEIVABLE (Continued)

Grants receivable consisted of the following at October 31:

	<u>2009</u>	<u>2008</u>
CACFP Food Reimbursement – Head Start	\$ 33,175	\$ 22,221
CACFP Food Reimbursement – Providers	76,344	40,000
Child Care Referral & Resource	109,591	-
Head Start	19,453	-
Head Start AARA	41,941	-
Healthy Marriage	9,591	(1,346)
Klee Foundation	40,645	-
NYS Dept of Health – Eat Well Play Hard	15,959	-
NYS Office of Children & Family Services – Kinship Care	10,797	-
Special Services – Pass-through from Department of Education	129,959	-
Other Grant Awards	<u>113,635</u>	<u>273,344</u>
 Total	 \$ <u>601,090</u>	 \$ <u>334,219</u>

NOTE 3 - 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, 2009), and are collateralized by substantially all assets of the Entities. Borrowings against this line totaled \$37,000 at October 31, 2009 and \$120,000 at October 31, 2008.

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, 2009). Borrowings against this line totaled \$17,634 at October 31, 2009.

NOTE 4 - LEASE COMMITMENTS

Capital Leases

The Entities entered into a capital lease agreement for copiers acquired in May of 2006. The capitalized cost of \$15,059 (less accumulated depreciation of \$5,145) is included in equipment in the accompanying financial statements. Depreciation expense for the copiers was \$1,506 for the years ended October 31, 2009 and 2008, respectively. Depreciation expense for the copiers is included in total depreciation expense. The balance of the liability was paid in full as of September 2009.

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

**NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2009 AND 2008  
(See independent auditor's report)**

NOTE 4 - LEASE COMMITMENTS (Continued)

Operating Leases

The Entities are party to three non-cancelable operating lease agreements. Leases are for office space, parking area, and copiers. The leases expire at various dates through 2012.

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

<u>Year Ending October 31,</u>	<u>Amount</u>
2010	\$ 18,840
2011	8,340
2012	<u>7,645</u>
Total	\$ <u>34,825</u>

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 \$7,200 for the years ended October 31, 2009 and 2008, respectively.

The Entities are involved in a month-to-month lease agreement for office space in Cortland, NY. The total rent expense paid under this lease was \$11,298 and \$10,098 for the years ended October 31, 2009 and 2008, respectively.

NOTE 5 - LONG-TERM DEBT

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

	<u>2009</u>	<u>2008</u>
Mortgage payable on 24 Cherry Street, Johnson City, NY, in the original amount of \$225,000, to a local lending institution in 60 monthly installments of \$1,936, including interest at 6.22%, with a balloon payment of \$172,000 due in October 2009. The mortgage is collateralized by all assets of the Entities. This loan was refinanced in December 2009. See Note 13.	\$ 172,017	\$ 183,993
Mortgage payable on 24 Cherry Street, Johnson City, NY, in the original amount of \$1,096,000, to a local lending institution in 180 monthly installments of \$9,017, including interest at 5.62%, due in March 2020. The mortgage is collateralized by a building and land.	825,162	873,274

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

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2009 AND 2008**

(See independent auditor's report)

NOTE 5 - LONG-TERM DEBT (Continued)

	<u>2009</u>	<u>2008</u>
Note payable on two photocopiers, in the original amount of \$15,059, in 60 monthly installments of \$304, including interest of 7.75%, due in May 2011. This note was paid off in 2009.	\$ -	\$ 8,526
Note payable on a parking lot, in the original amount of \$19,000, in 60 monthly installments of \$377, including interest of 7.00%, due in July 2013. This note is collateralized by all assets of the Entities.	15,144	18,466
Note payable on a Chevrolet Silverado, in the original amount of \$21,000, in 36 monthly installments of \$638, including interest of 5.87%, due in October 2012. This note is collateralized by a vehicle.	<u>21,000</u>	<u>-</u>
Total notes and mortgage payables	1,033,323	1,084,259
Less: current portion of long-term debt	<u>(86,000)</u>	<u>(239,386)</u>
Long-term debt	\$ <u>947,323</u>	\$ <u>844,873</u>

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

2010	\$ 86,000
2011	90,325
2012	95,524
2013	92,408
2014	95,185
Thereafter	<u>573,881</u>
Total	\$ <u>1,033,323</u>

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at October 31, 2009 and 2008:

	<u>Balance</u> <u>November 1, 2008</u>	<u>Income</u>	<u>Released from</u> <u>Restrictions</u>	<u>Balance</u> <u>October 31, 2009</u>
Rosie's For All Kids	\$ 3,039	\$ -	\$ 2,424	\$ 615
Reading Is Fundamental	<u>171</u>	<u>-</u>	<u>171</u>	<u>-</u>
	\$ <u>3,210</u>	\$ <u>-</u>	\$ <u>2,595</u>	\$ <u>615</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2009 AND 2008**

(See independent auditor's report)

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS (Continued)

	<u>Balance</u> <u>November 1, 2007</u>	<u>Income</u>	<u>Released from</u> <u>Restrictions</u>	<u>Balance</u> <u>October 31, 2008</u>
Rosie's For All Kids	\$ 3,039	\$ -	\$ -	\$ 3,039
Reading Is Fundamental	<u>          -</u>	<u>      171</u>	<u>          -</u>	<u>      171</u>
	<u>\$ 3,039</u>	<u>\$ 171</u>	<u>\$ -</u>	<u>\$ 3,210</u>

NOTE 7 - CONCENTRATION OF REVENUE

The Entities realized approximately 40% of its revenues from United States Department of Health and Human Services for the years ended October 31, 2009 and 2008, respectively.

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2009 AND 2008**

(See independent auditor's report)

**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, 2009, the Board of Directors authorized a matching contribution of up to 2% of employees' eligible compensation resulting in contributions totaling \$26,889 for program services employees and \$5,749 for administrative employees. Employer contributions totaling \$28,147 were made during 2008.

**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 Entities pulled out of the trust in 2004. The Complaint 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, 2009 and 2008, 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 2009 and 2008, the Entities were not advised of any changes to this estimated liability.

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

**NOTES TO FINANCIAL STATEMENTS**

**OCTOBER 31, 2009 AND 2008**

(See independent auditor's report)

**NOTE 10 - IN-KIND CONTRIBUTIONS**

In connection with its Head Start and Healthy Marriage programs, the Entities secure contributed goods and services of various professionals and individuals.

In-kind contributions recognized are summarized as follows:

	<u>2009</u>	<u>2008</u>
Educational and other professional services	\$ 245,475	\$ 723,187
Parking lot construction	47,490	-
Vehicles	<u>20,509</u>	<u>-</u>
	<u>\$ 313,474</u>	<u>\$ 723,187</u>

**NOTE 11 - RELATED PARTY TRANSACTIONS**

During the years ended October 31, 2009 and 2008, the Entities purchased contracting services from a company owned by a member of the Board of Directors. Purchases totaled \$98,558 and \$26,944 for the years ended October 31, 2009 and 2008, respectively.

During the years ended October 31, 2009 and 2008, the Entities had deposits on hand and outstanding loans with a local banking institution for which members of the Board of the Directors were employed. Interest paid to the financial institution totaled \$75,166 and \$76,893 for the years ended October 31, 2009 and 2008, respectively.

**NOTE 12 - SUPPLEMENTAL CASH FLOW DISCLOSURES**

The Company had noncash financing transactions relating to acquisition of a new vehicle via new borrowings in the amount of \$21,000 at October 31, 2009.

Cash payments for interest were as follows for the years ended October 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Interest	\$ <u>75,166</u>	\$ <u>76,893</u>

No income taxes were paid during the years ended October 31, 2009 and 2008.

**NOTE 13 - SUBSEQUENT EVENTS**

On December 1, 2009, the Entities refinanced the mortgage obligation for 24 Cherry Street, Johnson City, NY in the amount of \$169,952, with a local lending institution to be paid in 60 monthly installments of \$1,830, amortized over a period of 120 months, including interest payable at prime plus 2.00%. A balloon payment of \$95,000 will be due in December 2014.

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

**NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2009 AND 2008  
(See independent auditor's report)**

NOTE 14 - PROGRAM DESCRIPTIONS

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.

The following reconciles amounts reported in the financial statements with those reported to the Department of Health and Human Services (via Form SF-269):

Functional expenses before in-kind expenditures, depreciation, and allocated central administrative cost per Statement of Functional Expenses	\$ 2,401,020
Less AARA expenses included Head Start functional expense	(50,536)
Expenses allocated to general agency operations required to be reported for Head Start compliance	339,616
Capitalized assets that are expensed for Head Start	<u>71,379</u>
Allowable expenses before in-kind expenditures and depreciation per Schedule of Expenditures of Federal Awards	\$ 2,761,479
In-kind expenditures: labor	103,263
In-kind expenditures: goods and services	<u>1,002,798</u>
Total in-kind expenditures	<u>1,106,061</u>
Total program expenditures	\$ <u>3,867,540</u>

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

**NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2009 AND 2008  
(See independent auditor's report)**

NOTE 14 - 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.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED OCTOBER 31, 2009**

<u>Funding Source/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor Number</u>	<u>Expenditure of Federal Funds</u>
<b><u>U.S. Department of Agriculture</u></b>			
Passed through NY State Department of Health			
Child and Adult Care Food Program - HS	10.558	2005	\$ 186,280
Child and Adult Care Food Program - Providers	10.558	2006	496,142
Eat Well Play Hard	10.561	C022189	57,034
<b><u>U.S. Department of Justice</u></b>			
Office on Violence Against Women	16.736		70,997
<b><u>U.S. Department of Education</u></b>			
Passed through from various NYS School Districts			
Special Education Cluster			
Special Education Grants to States	84.027		106,815
AARA Grant - Special Education Grants to States	84.391		54,256
Special Education Preschool Grants	84.173		47,764
AARA Grant - Special Education Grants to States	84.392		32,675
Special Education cluster subtotal			<u>241,510</u>
<b><u>U.S. Department of Health and Human Services</u></b>			
Healthy Marriage	93.086		220,988
Head Start cluster			
Head Start	93.600		2,761,479
Head Start - AARA Grant	93.708		85,609
Head Start cluster subtotal			<u>2,847,088</u>
Passed through NYS Department of Social Services			
Child Care and Development Block Grant	93.575	C025172	405,030
Passed through NYS Office of Children and Family Services			
Kinship Caregiver Program	93.558	C024357	<u>144,872</u>
 TOTAL FEDERAL EXPENDITURES			 \$ <u><u>4,669,941</u></u>

See accompanying notes to schedule of expenditures of federal awards

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
OCTOBER 31, 2009 AND 2008**

**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 the financial statements of Family Enrichment Network, Inc. and its affiliate for the year ended October 31, 2009, and have issued our report thereon dated January 27, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency 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 misstatement on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. It is found in finding 2009-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

**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)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency noted above is not a material weakness.

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*.

We have noted certain matters that we reported to management of Family Enrichment Network, Inc. in a separate letter dated January 27, 2010.

Family Enrichment Network, Inc. and its affiliate's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Family Enrichment Network, Inc. and its affiliate's response and, accordingly, we express no opinion on it.

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.

*Davidson, Fox & Company, LLP*

Binghamton, New York  
January 27, 2010

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND 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 of Family Enrichment Network, Inc. (a nonprofit organization) and its affiliate with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended October 31, 2009. Family Enrichment Network, Inc. and its affiliate's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. 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. Our responsibility is to express an opinion on Family Enrichment Network, Inc. and its affiliate's compliance based on our 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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 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.

In our opinion, Family Enrichment Network, Inc. and its affiliate complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended October 31, 2009.

### 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 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

(Continued)

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 *control deficiency* in an organization's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the organization's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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.

Davidson, Fox + Company, LLP

Binghamton, New York  
January 27, 2010

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED OCTOBER 31, 2009**

**I. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Family Enrichment Network, Inc. and Consolidated Affiliate.
2. One significant deficiency disclosed during the audit of the financial statements is 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*. The deficiency is not reported as a material weakness.
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 unqualified 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:
  - U.S. Department of Health & Human Services, Head Start cluster: CFDA #93.600 and 93.708
  - U.S. Department of Health & Human Services, Child Care Development Block Grant: CFDA #93.575
  - U.S. Department of Agriculture, Child and Adult Care Food Program: CFDA #10.558.
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**

**2009-1 In-kind Revenue Recognition**

Condition: Cash contributions which qualified as matching funds for federal awards have been recorded in duplicate as both contribution revenues and in-kind revenues.

Criteria: Internal controls should be in place to prevent staff from recording cash contribution revenues as both contribution revenues and in-kind revenues.

Effect: The failure to properly record revenues in the general ledger can lead to overstating income and expenses.

Recommendations: We recommend that financial staff establish methods to track funding used for matching purposes separately from the general ledger so the duplicate recording will not happen in the future.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED OCTOBER 31, 2009**

II. FINANCIAL STATEMENT FINDINGS (Continued)

Grantee's Response: This Spreadsheet software will be utilized to track cash matching funds for grant reporting purposes. Implemented: December 2009. Contact person: Nora Bush, Fiscal Director.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - CURRENT YEAR

None noted.

IV. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - PRIOR YEAR

08-1 Child and Adult Care Food Program – CFDA No. 10.558 and Healthy Marriage – CFDA No. 93.086

Condition: In two instances of 80 disbursements tested, late fees of \$2.47 (Healthy Marriage) and \$94.95 (Child and Adult Care Food Program) which are non-allowable costs were paid out of the grants.

Criteria: Only allowable expenses can be paid out of the grants.

Effect: Non-allowable expenses were paid out of the grants.

Cause: The internal control procedures in place at the organization did not detect that late fees were being charged to the grants.

Recommendation: The organization's internal control structure should be enhanced so reviewers are more aware of unallowable costs.

Current Status: This finding was provided from the schedule of findings prepared by the previous auditing firm. We noted no late fees being charged to these federal grant programs during the current year. We consider this matter resolved.