FAMILY SERVICE LEAGUE, INC.
FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017
TOGETHER WITH AUDITOR'S REPORT

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DECEMBER 31, 2018 AND 2017

INDEX

NawrockiSmith
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Family Service League, Inc.:

Report on Financial Statements

We have audited the accompanying financial statements of Family Service League, Inc. (the "Organization", a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to financial 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 audits. We conducted our audits 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Service League, Inc. as of December 31, 2018 and 2017, and the changes in net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 3 to the financial statements, in 2018 the Organization adopted new accounting guidance, Accounting Standards Update ("ASU") 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entitie*s. The effect of ASU 2016-14 requires the Organization to apply the changes discussed in Note 3 to the financial statements retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2019, on our consideration of Family Service League, Inc.'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 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 Service League, Inc.'s internal control over financial reporting and compliance.

Melville, New York
April 23, 2019

Nawrocki Smith LLP

FAMILY SERVICE LEAGUE, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,489,167	$ 4,485,684
Investments	4,684,038	4,468,564
Accounts receivable, net	6,917,989	4,793,082
Prepaid expenses	41,901	7,266
Total current assets	15,133,095	13,754,596
RESTRICTED CASH AND CASH EQUIVALENTS	5,038,263	5,549,475
RESTRICTED INVESTMENTS	1,035,780	570,600
LAND, BUILDINGS AND EQUIPMENT, net of accumulated depreciation of $6,560,587 and $5,918,452, respectively	10,964,912	9,051,785
OTHER ASSETS	237,756	80,171
Total assets	$ 32,409,806	$ 29,006,627
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of bonds payable	$ 339,000	$ 244,000
Current portion of mortgage note payable	13,381	11,798
Accounts payable and accrued expenses	7,489,776	4,941,206
Deferred income	1,069,870	2,174,915
Total current liabilities	8,912,027	7,371,919
BONDS PAYABLE	10,196,180	10,485,748
MORTGAGE NOTE PAYABLE	313,087	327,370
Total liabilities	19,421,294	18,185,037
NET ASSETS:		
Without donor restrictions -		
Designated for land, buildings and equipment	4,809,574	2,715,405
Board designated for capital expenditures	1,000,000	1,000,000
Board designated for operational allowance	250,000	250,000
Board designated for ensuing year's budget	142,249	350,675
Undesignated	4,039,787	3,387,808
Total net assets without donor restrictions	10,241,610	7,703,888
With donor restrictions -		
Purpose restricted	1,379,169	1,730,163
Restricted in perpetuity	1,367,733	1,387,539
Total net assets with donor restrictions	2,746,902	3,117,702
Total net assets	12,988,512	10,821,590
Total liabilities and net assets	$ 32,409,806	$ 29,006,627

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

FAMILY SERVICE LEAGUE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating revenues:		
Program fees	$ 22,424,218	$ 22,155,998
Government contracts	22,058,936	18,022,396
Indirect public support	3,215,339	1,911,856
Public support and fundraising	519,368	986,260
Other income	167,005	22,816
Net assets released from restrictions	2,255,107	1,565,845
Total operating revenues	50,639,973	44,665,171
Operating expenses:		
Program services	41,530,021	38,376,762
General and administrative	5,868,369	5,504,416
Fundraising	705,750	566,093
Total operating expenses	48,104,140	44,447,271
Increase in net assets from operating activities	2,535,833	217,900
Nonoperating activities:		
Unrealized gain (loss) on investments	(205,662)	136,179
Investment income, net	207,551	17,721
Increase in net assets from nonoperating activities	1,889	153,900
Increase in net assets without donor restrictions	2,537,722	371,800
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS:		
Revenues	1,904,113	1,960,107
Investment loss	(19,806)	-
Net assets released from restrictions	(2,255,107)	(1,565,845)
Increase (decrease) in net assets with donor restrictions	(370,800)	394,262
CHANGE IN NET ASSETS	2,166,922	766,062
NET ASSETS, BEGINNING OF YEAR	10,821,590	10,055,528
NET ASSETS, END OF YEAR	$ 12,988,512	$ 10,821,590

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

FAMILY SERVICE LEAGUE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services						Supporting Services		
	Behavioral Health Services	Family Services	Youth, Seniors And Intergenerational Services	Housing And Homeless Services	Vocational Services	Total	General And Administrative	Fundraising	Total
Payroll	$ 14,248,495	$ 3,233,409	$ 1,994,672	$ 3,395,498	$ 662,239	$ 23,534,313	$ 3,094,497	$ 435,339	$ 27,064,149
Rent	888,327	62,654	56,058	3,021,588	-	4,028,627	-	6,000	4,034,627
Employee benefits	1,639,260	413,707	207,583	328,593	80,533	2,669,676	397,923	54,334	3,121,933
Payroll taxes	1,390,576	308,953	212,153	351,267	68,296	2,331,245	262,642	41,224	2,635,111
Professional fees	344,698	34,532	21,262	1,559,042	6,243	1,965,777	220,681	84	2,186,542
Repairs and maintenance	315,265	88,940	68,557	503,027	66,181	1,041,970	263,070	5,899	1,310,939
Program supplies	193,286	91,698	173,441	213,430	38,945	710,800	345,988	109,436	1,166,224
Office	541,905	93,299	40,308	103,102	28,574	807,188	225,910	12,278	1,045,376
Client support	405,872	109,691	7,271	437,238	199	960,271	-	-	960,271
Insurance	447,515	73,363	44,103	92,878	13,628	671,487	140,937	9,589	822,013
Telephone	507,898	122,175	35,884	71,653	10,100	747,710	56,031	5,784	809,525
Depreciation and amortization	197,217	11,055	-	7,711	3,297	219,280	472,287	-	691,567
Utilities	179,675	39,020	48,104	246,847	28,872	542,518	32,642	2,671	577,831
Interest	47,722	42,664	39,628	38,493	16,306	184,813	216,840	-	401,653
Janitorial	116,729	39,275	50,054	94,445	30,256	330,759	13,398	-	344,157
Food	209	2,154	3,179	238,315	58,702	302,559	452	-	303,011
Auto and van	158,978	8,275	27	34,651	4	201,935	23,835	-	225,770
Travel	48,676	90,778	12,937	10,525	217	163,133	17,570	475	181,178
Patient transportation	9,584	10,960	31,870	2,000	-	54,414	-	-	54,414
Advertising	3,882	1,279	-	1,276	(226)	6,211	43,931	432	50,574
Conferences and training	13,636	9,845	8,493	1,056	450	33,480	14,930	1,536	49,946
Dues	300	3,479	100	375	5,500	9,754	16,224	650	26,628
Postage	5,807	2,660	2,643	741	250	12,101	7,446	1,881	21,428
Printing	-	-	-	-	-	-	300	18,138	18,438
Real estate taxes	-	-	-	-	-	-	835	-	835
	$ 21,705,512	$ 4,893,865	$ 3,058,327	$ 10,753,751	$ 1,118,566	$ 41,530,021	$ 5,868,369	$ 705,750	$ 48,104,140

The accompanying notes to financial statements
are an integral part of this statement.

FAMILY SERVICE LEAGUE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services						Supporting Services		
	Behavioral Health Services	Family Services	Youth, Seniors And Intergenerational Services	Housing And Homeless Services	Vocational Services	Total	General And Administrative	Fundraising	Total
Payroll	$ 12,939,187	$ 3,334,022	$ 2,018,237	$ 2,859,009	$ 542,903	$ 21,693,358	$ 3,001,011	$ 418,782	$ 25,113,151
Rent	828,030	73,079	61,680	2,895,737	-	3,858,526	-	-	3,858,526
Employee benefits	1,501,895	423,800	202,714	350,541	73,315	2,552,265	423,755	48,754	3,024,774
Payroll taxes	1,191,974	318,430	211,556	270,232	51,551	2,043,743	254,600	39,816	2,338,159
Professional fees	369,030	28,005	39,977	1,649,319	18,255	2,104,586	149,378	62	2,254,026
Repairs and maintenance	177,050	49,348	57,698	445,764	46,821	776,681	199,580	7,013	983,274
Office	357,001	71,997	49,558	64,462	19,771	562,789	336,252	9,366	908,407
Client support	531,270	179,511	6,665	175,302	-	892,748	160	-	892,908
Program supplies	72,376	109,165	142,979	160,747	21,499	506,766	345,426	14,012	866,204
Telephone	438,927	123,815	55,754	68,341	17,801	704,638	40,092	2,357	747,087
Insurance	347,424	70,102	35,295	70,284	9,591	532,696	120,433	7,216	660,345
Depreciation and amortization	142,343	11,055	-	8,002	3,296	164,696	452,517	-	617,213
Utilities	184,729	48,087	56,944	229,749	24,775	544,284	28,519	2,658	575,461
Food	-	58,361	5,898	249,550	60,357	374,166	3,995	-	378,161
Janitorial	114,440	40,836	52,433	93,093	22,929	323,731	8,404	453	332,588
Interest	47,300	63,449	71,698	55,262	16,855	254,564	28,327	1,024	283,915
Auto and van	147,670	6,890	-	26,194	1,428	182,182	21,462	-	203,644
Travel	50,429	98,724	11,987	4,508	379	166,027	24,320	532	190,879
Conferences and training	9,535	19,085	4,079	2,061	390	35,150	44,601	1,376	81,127
Patient transportation	1,651	6,016	27,660	1,375	124	36,826	-	-	36,826
Real estate taxes	-	-	-	29,203	-	29,203	949	-	30,152
Postage	6,572	2,510	3,482	2,539	2,766	17,869	6,162	1,963	25,994
Dues	5,750	483	115	2,249	550	9,147	9,764	675	19,586
Advertising	4,279	50	1,602	3,771	419	10,121	4,709	3,800	18,630
Printing	-	-	-	-	-	-	-	6,234	6,234
	$ 19,468,862	$ 5,136,820	$ 3,118,011	$ 9,717,294	$ 935,775	$ 38,376,762	$ 5,504,416	$ 566,093	$ 44,447,271

The accompanying notes to financial statements
are an integral part of this statement.

FAMILY SERVICE LEAGUE, INC.
STATEMENTS OF CASH FLOWS (INDIRECT METHOD)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 2,166,922	$ 766,062
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	691,567	617,213
Accretion of mortgage note payable	(12,700)	(12,050)
Unrealized (gain) loss on investments	225,468	(136,179)
(Increase) decrease in restricted cash	511,212	(4,693,968)
Increase in accounts receivable	(2,124,907)	(3,552,271)
Increase in prepaid expenses	(34,635)	(666)
(Increase) decrease in other assets	(157,585)	16,391
Increase in accounts payable and accrued expenses	2,548,570	1,942,808
Increase (decrease) in deferred income	(1,105,045)	1,533,323
Net cash provided (used) by operating activities	2,708,867	(3,519,337)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets	(2,555,262)	(363,838)
Purchase of investments	(2,140,174)	(2,664,140)
Sale of investments	1,234,052	777,293
Net cash used by investing activities	(3,461,384)	(2,250,685)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of bonds payable	-	6,351,000
Bond issuance costs	-	(421,995)
Payments on bonds payable	(244,000)	(203,000)
Payments on loan payable	-	(1,414,407)
Net cash provided (used) by financing activities	(244,000)	4,311,598
NET DECREASE IN CASH AND CASH EQUIVALENTS	(996,517)	(1,458,424)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,485,684	5,944,108
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,489,167	$ 4,485,684
CASH PAID DURING THE YEAR FOR:		
Interest	$ 401,653	$ 283,915
SUPPLEMENTAL CASH FLOW INFORMATION:		
Retirement of fully depreciated fixed assets	$ -	$ 87,095

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

FAMILY SERVICE LEAGUE, INC.
NOTES TO FINANCIAL STATEMENTS

(1) Organization and operation:

Family Service League, Inc. (the "Organization") is a non-profit corporation, exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The Organization serves troubled and needy individuals and families.

(2) Summary of significant accounting policies:

The accompanying financial statements include the assets, liabilities, revenues and expenses of the Organization. The following is a summary of significant accounting policies followed by the Organization.

Financial statement presentation -

The accompanying financial statements include the accounts of the Organization's programs, administration and fundraising. The Organization presents its financial statements in accordance with U.S. generally accepted accounting principles which require that the Organization's financial statements distinguish net assets and changes in net assets between those with and without donor restrictions. The Organization's net assets consist of the following:

> Without donor restrictions - net assets of the Organization which have not been restricted by an outside donor or by law and are therefore available for use in carrying out the operations of the Organization.
>
> With donor restrictions - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Organization follows U.S. generally accepted accounting principles regarding Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and Enhanced Disclosures for All Endowment Funds which require a portion of a donor-restricted endowment fund that is not classified as restricted in perpetuity net assets to be classified as purpose restricted net assets until appropriated for expenditure.

As required by U.S. generally accepted accounting principles, the Organization has also presented Statements of Cash Flows for the years ended December 31, 2018 and 2017.

Revenue and expense recognition -

Contributions are recognized as income when received and are considered to be available for unrestricted use unless specifically restricted by the donor. Revenues under contracts for service are generally recognized as earned and expenses are recognized when incurred. Deferred income arises from payments received under agreements for service prior to revenue recognition. Expenses are allocated into functional categories depending upon the ultimate purpose of the expenditure.

Cash and cash equivalents -

All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents, principally money market funds.

Restricted cash -

Restricted cash as of December 31, 2018 and 2017, relates to bond proceeds of $4,706,310 and $4,732,536, respectively, and donor restricted funds of $331,953 and $816,939, respectively.

Accounts receivable -

The Organization provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables and historical collection information. As of December 31, 2018 and 2017, the allowance for doubtful accounts was $593,705 and $357,178, respectively.

Investments -

Investments are recorded at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization follows U.S. generally accepted accounting principles regarding fair value measurements which establish a fair value hierarchy requiring an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Land, buildings and equipment -

Land, buildings and equipment are capitalized at cost or, if donated, at fair market value as of the date of receipt. The cost of land, buildings and equipment purchased in excess of $1,000 is capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (generally periods of five to thirty years).

Impairment of long-lived assets and long-lived assets to be disposed of -

The Organization follows the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") on accounting for the impairment or disposal of long-lived assets which require that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. These principles did not have a material impact on the Organization's financial position, results of activities or liquidity during the years ended December 31, 2018 and 2017.

Conditional asset retirement obligations -

The FASB ASC on accounting for conditional asset retirement and environmental obligations requires the Organization to recognize a liability for the fair value of its legal obligation to perform an asset retirement activity, even though uncertainty exists about the timing and/or method of settlement, if and when the fair value of the liability can be reasonably estimated. As of December 31, 2018 and 2017, the Organization has met the provisions of and is in compliance with these requirements and no obligation currently exists.

Donated services -

A number of volunteers have donated significant amounts of their time in the Organization's program services, administration and fundraising campaigns. However, since these services do not meet the criteria for recognition under U.S. generally accepted accounting principles, they are not reflected in the accompanying financial statements.

Functional expenses -

The Statements of Functional Expenses report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Direct program expenses are reported in their respective functional categories. The significant expenses that are allocated include: payroll, employee benefits and payroll taxes which are allocated on the basis of estimates of time and effort. Depreciation and rent are allocated on basis of square footage and use, and all other expenses are allocated on a systematic and rational basis.

Liquidity considerations -

Quantitative

As of December 31, 2018 and 2017, the Organization has $15,133,095 and $13,754,596, respectively, of financial assets available to meet cash needs for program and supporting services expenditures within one year of the Statement of Financial Position date, as noted in the current assets section of the statement. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for expenditures within one year of the Statement of Financial Position date.

Qualitative

As a part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has committed lines of credit in the amount of $2 million, which it could draw upon.

Income taxes -

The Organization qualifies as a tax-exempt not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and applicable New York State tax laws. Accordingly, no provision for federal or state income taxes is required.

Uncertainty in income taxes -

The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition. The Organization is no longer subject to examination by the applicable taxing jurisdictions for tax years prior to 2015.

The use of estimates in the preparation of financial statements -

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

Reclassifications -

Certain reclassifications of prior year balances on the Statements of Financial Position, Statements of Activities and Changes in Net Assets and Statements of Cash Flows have been made to conform to the current year presentation. These reclassifications had no effect on the increase in net assets for the year ended December 31, 2017.

(3) New accounting standards:

For the fiscal year ended December 31, 2018, the Organization implemented FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities.* The Organization has applied the changes retrospectively to all periods presented. The new standard changes the following aspects of the financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions;
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions;
- The financial statements include a disclosure about liquidity and availability of resources and functional expense allocation; and
- Investment expenses are included in net investment return and are presented on the face of the Statements of Activities and Changes in Net Assets.

(4) Fair value measurement:

The FASB *Fair Value Measurement* standard clarifies the definition of fair value for financial reporting, establishes framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable. The Organization has adopted the standard for its financial assets and liabilities measured on a recurring and nonrecurring basis.

Fair Value Measurement defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e. an exit price. The three levels of fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reported entity has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The following table represents the Organization's fair value hierarchy for investments as of December 31, 2018:

	Fair Value	Level 1	Level 2	Level 3
Corporate fixed income	$ 4,452,168	$ 4,452,168	$ -	$ -
Certificates of deposit	1,043,664	1,043,664	-	-
Mutual funds	223,936	223,936		
Common stock	50	50	-	-
Total investments	$ 5,719,818	$ 5,719,818	$ -	$ -

The following table represents the Organization's fair value hierarchy for investments as of December 31, 2017:

	Fair Value	Level 1	Level 2	Level 3
Corporate fixed income	$ 4,198,468	$ 4,198,468	$ -	$ -
Certificates of deposit	570,600	570,600	-	-
Mutual funds	269,457	269,457	-	-
Common stock	639	639	-	-
Total investments	$ 5,039,164	$ 5,039,164	$ -	$ -

As of December 31, 2018 and 2017, the Organization did not possess any level 2 or 3 type of investments.

(5) Land, buildings and equipment:

Land, buildings and equipment as of December 31, 2018 and 2017 are comprised of the following:

	2018	2017
Land	$ 2,144,455	$ 2,144,455
Buildings and building improvements	10,654,713	10,619,813
Construction-in-progress	1,996,260	164,169
Office furniture and equipment	1,057,776	1,059,318
Vehicles	1,672,295	982,482
	17,525,499	14,970,237
Less: accumulated depreciation	(6,560,587)	(5,918,452)
	$ 10,964,912	$ 9,051,785

Depreciation expense amounted to $642,135 and $580,973 in 2018 and 2017, respectively.

(6) Line of credit:

The Organization has a line of credit agreement with a bank through June 1, 2019, which provides for maximum borrowings of $2,000,000. Borrowings under this line bear interest at LIBOR plus 1.8% and are secured by a security interest and lien in a certain securities account of the Organization. As of December 31, 2018 and 2017, there were no outstanding borrowings under this line.

(7) **Mortgage note payable**:

On December 17, 2008, the Organization acquired land and a building located in Huntington, New York under a contractual agreement with the New York State Homeless Housing and Assistance Corporation ("HHAC"). HHAC has committed total funding in the amount of $489,640, of which $420,000 was advanced as of December 31, 2009 to acquire the land and building. In connection therewith, the Organization incurred a 25 year mortgage note, secured by the land and building. The note will be completely forgiven at the end of the 25 year period, provided the Organization complies with the terms and conditions of the agreement. For the years ended December 31, 2018 and 2017, the amount outstanding under the note was $326,469 and $339,168, respectively. The note reduction is being accreted into income over the 25 year period, which is the estimated useful life of the depreciable asset.

(8) **Bonds payable**:

On June 28, 2012, the Suffolk County Economic Development Corporation issued Revenue Bonds in the aggregate principal amounts of $6,285,000 of tax-exempt bonds, and $487,000 of taxable bonds on behalf of the Family Service League, Inc. for the purposes described below:

(A) Tax-Exempt Revenue Refunding Bonds in the amount of $4,995,000 ("Series 2012A Bonds"), to provide funding for the purpose of refinancing the Organization's Civic Facility Revenue Bonds, Series 2004, issued by the Suffolk County Industrial Development Agency in the original aggregate principal amount of $4,895,000 ("Series 2004 Bonds"), the proceeds of which were used to finance or refinance various real property acquisitions and renovations.

The net proceeds were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the Series 2004 Bonds are considered to be defeased, and the liability for those bonds has been removed from the Organization's financial statements. The Series 2012A Bonds bear interest at a rate equal to 65.5% of the sum of (i) the 30-Day LIBOR rate plus (ii) 2.5% and mature in 2034. The balance outstanding on the Series 2012A Bonds as of December 31, 2018 and 2017 was $4,135,000 and $4,270,000, respectively.

(B) Tax-Exempt Revenue Bonds in the amount of $1,290,000 ("Series 2012B Bonds"), for the purpose of financing a portion of the costs of building renovations and equipment of the Organization, and a portion of the issuance costs of the Series 2012A Bonds, the Series 2012B Bonds and the Series 2012C Bonds. The Series 2012B Bonds bear interest at a rate equal to 65.5% of the sum of (i) the 30-Day LIBOR rate plus (ii) 2.5% and mature in 2042. The balance outstanding on the Series 2012B Bonds as of December 31, 2018 and 2017 was $1,255,000 and $1,290,000, respectively.

(C) Taxable Revenue Bonds in the amount of $184,000 ("Series 2012C Bonds"), for the purpose of (1) refinancing a portion of the Series 2004 Bonds, the proceeds of which Series 2004 Bonds were used to finance the costs of a building; and (2) paying the redemption premiums in connection with such portion of the refunded bonds. The Series 2012C Bonds bear interest at the rate of 4.03% and mature in 2022. The balance outstanding on the Series 2012C Bonds as of December 31, 2018 and 2017 was $71,000 and $89,000, respectively.

(D) Taxable Revenue Bonds in the amount of $303,000 ("Series 20120 Bonds"), for the cost of issuance of the Series 2012 Bonds and certain other costs. The Series 2012D Bonds bear interest at the rate of 3.5% and matured in 2017. There was no balance outstanding on the Series 2012D Bonds as of December 31, 2018 and 2017.

On December 18, 2017, the Suffolk County Economic Development Corporation issued Revenue Bonds in the aggregate principal amounts of $6,087,000 of tax-exempt bonds, and $264,000 of taxable bonds on behalf of the Family Service League, Inc. for the purposes described below:

(A) Tax-Exempt Revenue Bonds in the amount of $3,815,000 ("Series 2017A Bonds"), to provide funding for the purpose of financing various real property acquisitions and renovations. The Series 2017A Bonds bear interest at a rate of 3.32% and mature in 2042. The balance outstanding on the Series 2017A Bonds as of December 31, 2018 and 2017 was $3,815,000.

(B) Tax-Exempt Revenue Bonds in the amount of $1,595,000 ("Series 2017B Bonds"), for the purpose of financing a portion of the costs of building renovations and equipment of the Organization, and a portion of the issuance costs of the Series 2017A Bonds. The Series 2017B Bonds bear interest at a rate of 3.32% and mature in 2042. The balance outstanding on the Series 2017B Bonds as of December 31, 2018 and 2017 was $1,595,000.

(C) Tax-Exempt Revenue Bonds in the amount of $677,000 ("Series 2017C Bonds"), for the purpose financing a portion of the costs of building renovations and equipment of the Organization. The Series 2017C Bonds bear interest at the rate of 3.32% and mature in 2042. The balance outstanding on the Series 2017C Bonds as of December 31, 2018 and 2017 was $665,000 and $677,000, respectively.

(D) Taxable Revenue Bonds in the amount of $264,000 ("Series 2017D Bonds"), for the cost of issuance of the Series 2017 Bonds and certain other costs. The Series 2017D Bonds bear interest at the rate of 4.53% and mature in 2022. The balance outstanding on the Series 2017D Bonds as of December 31, 2018 and 2017 was $220,000 and $264,000, respectively.

The Bonds are secured by a first priority mortgage lien on the Organization's real property and require annual principal repayments through 2042 as follows:

Year Ending December 31,	
2019	$ 339,000
2020	440,000
2021	461,000
2022	462,000
2023	499,000
2024-2028	2,703,000
2029-2033	3,064,000
2034-2038	2,130,000
2038-2042	1,658,000
Subtotal	11,756,000
Less: bond issuance costs	1,220,820
Total	$ 10,535,180

As of December 31, 2018 and 2017, bond issuance costs, net of amortization, totaling $1,220,820 and $1,270,252 are reflected as a direct deduction from bonds payable. Amortization expense of bond issuance costs as of December 31, 2018 and 2017 was $49,432 and $36,240, respectively.

The respective bond agreements have various covenants with which the Organization must comply. The Organization has complied with all of the debt covenants as of December 31, 2018 and 2017.

In connection with certain bond issues discussed previously, the Organization entered into two interest rate exchange agreements (the "Swap Contracts") with a bank ("Swap Provider") for the purpose of converting the Organization's variable rate exposure relating to the Series 2012A and 2012B Bonds to a fixed rate. The Swap Contracts have initial notional amounts of $4,995,000 and $1,290,000, respectively. Under the terms of the Swap Contracts, the Organization will make fixed rate payments to the Swap Provider in an amount equal to 1.25% and 1.213%, respectively, per annum multiplied by the notional amount of each such Swap Contract, and the Organization will receive floating rate payments from the Swap Provider equal to the Swap Contract. The floating rate for each calculation period shall be calculated at 65.5% of 1-month USD-LIBOR. As of December 31, 2018 and 2017, the fair value of the interest rate swap was $71,656 and ($34,605) respectively, which is included as an increase/reduction, respectively, in other assets in the accompanying Statements of Financial Position. The change in fair value of the interest rate swap is included in other income in the accompanying Statements of Activities and Changes in Net Assets.

(9) <u>Net assets with donor restrictions</u>:

Purpose restricted net assets are available for or relate to the following purposes:

	2018	2017
Health and Wellness Campaign	$ 439,630	$ 790,116
Manorfield Donations	131,566	14,097
Capital Campaign	105,873	117,637
Community Behavioral Health	104,160	108,102
Integrated Care	96,399	96,399
Huntington Interfaith Housing Initiative	88,352	60,835
Lockwood Donation - Preschool	73,288	67,198
Camp	52,886	72,864
33 9th Ave	52,532	24,093
DCM - American Red Cross	47,703	47,703
"Senior Net" contributions	34,789	49,433
Ellie Sammis Fund interest	29,104	29,087
Community School	25,155	11,933
Crisis Stabilization	25,000	-
Shelter Donations	17,338	-
C-Cat Program	14,804	16,694
Direct Relief	10,904	10,904
William Floyd Family Center	10,665	49,677
Mattituck Fund	8,804	7,678
Home Share	6,601	20,311
Back to School Campaign	2,176	3,159
Debt Counseling Grants	1,440	1,440
Bellport - Parent Child Home Program	-	77,077
Supported Employment Demonstration Project	-	35,188
Patchogue Family Center	-	18,538
	$ 1,379,169	$ 1,730,163

Restricted in perpetuity net assets are restricted to:

	2018	2017
Lockwood Family Foundation Fund	$ 1,037,294	$ 1,057,100
Campaign for the Future	226,891	226,891
Ellie Sammis Fund	79,548	79,548
Nichols donation	17,000	17,000
Preschool program endowment	7,000	7,000
	$ 1,367,733	$ 1,387,539

Restricted in perpetuity net assets relate to endowments to be maintained in perpetuity, the income from which is expendable to support general operations.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or applicable law requires the Organization to retain as a fund of perpetual duration. As of December 31, 2018 the Lockwood Family Foundation Fund had a balance of $1,037,294, as compared to $1,057,100 on December 31, 2017, creating a deficiency of $19,806.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to protect the original value of the gift. In cases of endowment deficiencies, the Organization suspends all spending.

The UPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(10) Pension plan:

The Organization maintains a defined contribution plan for employees who have completed one year of service, as defined in the plan. The plan is non-contributory, and employees are fully vested after three years of employment. The Organization makes quarterly contributions to the plan based on five percent of a participant's salary as defined. Total pension expense was $801,153 and $829,418 for the years ended December 31, 2018 and 2017, respectively.

(11) Business concentrations:

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. As of December 31, 2018 and 2017, cash and cash equivalents exceeding federally insured limits totaled $7,263,590 and $4,645,041, respectively.

The Organization does not have a material concentration of credit risk with respect to accounts receivable, due to the large number of government agencies and grantors comprising the Organization's contract and contributor base and their dispersion across different geographic areas.

(12) Commitments and contingencies:

Lease agreements -

The Organization rents certain of its facilities on a month-to-month basis. In addition, the Organization has several noncancelable operating lease agreements for the use of facilities throughout Suffolk County, which expire at various dates through 2026. Total rent expense for 2018 and 2017 was $4,034,627 and $3,858,526, respectively.

The Organization also leases various office equipment under operating leases which expire at various dates through 2022.

Future minimum payments under facilities and equipment operating leases are as follows:

Year Ending December 31,	
2019	$ 3,545,291
2020	3,495,240
2021	3,430,958
2022	3,388,038
2023	3,380,655
2024 and thereafter	7,440,219
	$ 24,680,401

Contract considerations -

The Organization receives a substantial portion of its funding from contracts and grants which are subject to audit by government agencies. Such audits may result in disallowances and a request for a return of funds. It is the opinion of management that the effect of disallowances, if any, would be immaterial to the Organization's financial position.

Litigation -

In the normal course of business, the Organization is a party to various claims and/or litigation. Management believes that the settlement of all such claims and/or litigation, considered in the aggregate, will not have a material adverse effect on the Organization's financial position and results of operations.

(13) Subsequent events:

The Organization has evaluated subsequent events through April 23, 2019, which is the date these financial statements were available to be issued, noting one matter which requires disclosure in the financial statements:

As of December 31, 2018, the Lockwood Family Foundation Fund had a balance of $1,037,294, as compared to $1,057,100, the level that the donor stipulated to be retained as a fund of perpetual duration. Because of more favorable market conditions since December 31, 2018, this Fund has now been restored to its stipulated level.

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CERTIFIED PUBLIC ACCOUNTANTS

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*

To the Board of Directors of
Family Service League, Inc.:

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 Service League, Inc. (the "Organization", a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated April 23, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 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 those 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.

NawrockiSmith

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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.

Melville, New York
April 23, 2019

Nawrocki Smith LLP