

SOUTHWEST KEY PROGRAMS, INC.

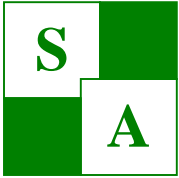
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
AUGUST 31, 2007 AND 2006

SOUTHWEST KEY PROGRAMS, INC.

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SPROUSE & ANDERSON, L.L.P.
ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Southwest Key Programs, Inc.
Austin, Texas

We have audited the accompanying statements of financial position of Southwest Key Programs, Inc. (Organization), a nonprofit organization as of August 31, 2007 and 2006, and the related statements of activities and cash flows for the years 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 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of August 31, 2007 and 2006, and the changes in its operations and its cash flows for the years 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 December 20, 2007, on our consideration of the Organization's internal control over financial reporting and 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 should be considered in assessing the results of our audit.



Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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.

December 20, 2007
Austin, Texas

FINANCIAL STATEMENTS

SOUTHWEST KEY PROGRAMS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and Support						
Grant and contract revenue	\$ 46,761,604	\$ 1,071,919	\$ 47,833,523	\$ 46,733,652	\$ 428,752	\$ 47,162,404
Rent income	-	-	-	-	-	-
Contribution income	42,063	697,713	739,776	53,718	761,356	815,074
Other income	41,093	-	41,093	20,228	-	20,228
In-kind donations	89,323	-	89,323	90,391	-	90,391
Fundraising	19,162	470	19,632	18,316	4,292	22,608
Interest income	<u>107,541</u>	<u>2,787</u>	<u>110,328</u>	<u>121,915</u>	<u>2,303</u>	<u>124,218</u>
Total Revenues and Support	<u>47,060,786</u>	<u>1,772,889</u>	<u>48,833,675</u>	<u>47,038,220</u>	<u>1,196,703</u>	<u>48,234,923</u>
Net Assets Released from Restrictions						
Satisfaction of program restrictions	<u>1,771,102</u>	<u>(1,771,102)</u>	<u>-</u>	<u>1,193,667</u>	<u>(1,193,667)</u>	<u>-</u>
Total Revenues and Support	<u>48,831,888</u>	<u>1,787</u>	<u>48,833,675</u>	<u>48,231,887</u>	<u>3,036</u>	<u>48,234,923</u>
Expenses						
Program services	42,250,509	-	42,250,509	42,445,732	-	42,445,732
General and administrative	4,850,648	-	4,850,648	4,050,041	-	4,050,041
Fundraising	<u>59,730</u>	<u>-</u>	<u>59,730</u>	<u>40,558</u>	<u>-</u>	<u>40,558</u>
Total Expenses	<u>47,160,887</u>	<u>-</u>	<u>47,160,887</u>	<u>46,536,331</u>	<u>-</u>	<u>46,536,331</u>
Change in Net Assets	1,671,001	1,787	1,672,788	1,695,556	3,036	1,698,592
Net Assets at Beginning of Year	<u>6,199,191</u>	<u>62,938</u>	<u>6,262,129</u>	<u>4,503,635</u>	<u>59,902</u>	<u>4,563,537</u>
Net Assets at End of Year	<u>\$ 7,870,192</u>	<u>\$ 64,725</u>	<u>\$ 7,934,917</u>	<u>\$ 6,199,191</u>	<u>\$ 62,938</u>	<u>\$ 6,262,129</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

SOUTHWEST KEY PROGRAMS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,672,788	\$ 1,698,592
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation & amortization	174,548	54,437
Loss on disposal of assets	2,656	123,975
Provision of allowance for doubtful accounts	-	6,629
Changes in Assets and Liabilities		
Decrease (increase) in accounts receivable	419,751	210,459
Decrease in employee advances	556	219
Decrease (increase) in prepaid expenses	377,310	(95,756)
Decrease (increase) in lease deposits	21,876	8,540
Increase in accounts payable	534,423	256,683
Increase in advances	160,279	123,881
Increase in accrued salaries	(67,682)	63,506
Increase in accrued vacation expense	34,896	42,040
Increase (decrease) in other accrued liabilities	(512,313)	967,329
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,819,088	3,460,534
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(4,992,896)	(1,058,469)
Proceeds from sale of fixed assets	6,838	1,135,195
NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES	(4,986,058)	76,726
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	643,508	45,046
Payments on capital lease obligations	(115,655)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	527,853	45,046
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,639,117)	3,582,306
CASH AND CASH EQUIVALENTS at Beginning of Year	5,228,240	1,645,934
CASH AND CASH EQUIVALENTS at End of Year	\$ 3,589,123	\$ 5,228,240
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year For:		
Interest	\$ -	\$ -
Income Taxes	\$ -	\$ -
SUPPLEMENTAL DISCLOSURES OF NON CASH FLOW INFORMATION		
Vehicle purchased with lease obligation	\$ 589,619	\$ -
Note payable in accounts receivable at year-end	\$ 35,212	\$ 267,342

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007 AND 2006

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Southwest Key Programs, Inc. (Organization) is a not-for-profit organization created primarily for the purpose of designing and managing both residential and non-residential community-based treatment programs for troubled children and families.

The Organization operates eighteen programs in nine Texas communities, one program in Arizona, two programs in Wisconsin, three programs in California, eighteen programs in Georgia, five programs in New York, and one program in Louisiana. Within these programs, the Organization provides a comprehensive array of innovative social services, including group and family counseling, recreation programming, educational services, pre-vocational and vocational training, crises intervention, life skills development and community supervision to more than 5,000 clients on a daily basis. Funding is provided primarily by the federal government and the states of Texas, Arizona, Wisconsin, Louisiana, and Georgia, with additional funds provided by local government agencies and private contributions.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America.

Contributions, revenue, and expenses are recognized under the accrual method of accounting. Public support and revenue are considered to be available for unrestricted use, unless specifically restricted by the donor.

FINANCIAL STATEMENT PRESENTATION

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets

Unrestricted net assets consist of net assets that are not subject to donor-imposed restrictions. Unrestricted net assets result from operating revenues, unrestricted contributions, unrestricted dividend and interest income, less expenses incurred in operations, to raise contributions and for administrative functions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. The Board of Directors has designated \$500,000 as of August 31, 2007 and 2006 for the East Austin building project.

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

AUGUST 31, 2007 AND 2006

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of net assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specific event. When the donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets consist of assets which are subject to donor-imposed stipulations to be maintained permanently. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Organization has no permanently restricted net assets at August 31, 2007 and 2006.

CONTRIBUTIONS

The Organization records contributions under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions with restrictions that have been satisfied in the year of receipt are reported as unrestricted net assets in the same reporting period.

FIXED ASSETS

Property, buildings and equipment are recorded at cost at the date of purchase and depreciated on a straight-line basis over their estimated useful lives, generally three to ten years for furniture and equipment, 40 to 50 years for buildings, and over the term of the corresponding lease for leasehold improvements. For the years ended August 31, 2007 and 2006, the Organization's capitalization policy is to capitalize all capital assets over \$1,000, which are not purchased with federal funds.

The Organization expenses fixed assets purchased with federal funds, where title to real and personal property is held by the federal entity. Title to property and equipment acquired by a non-federal entity with federal awards vests with the non-federal entity until such time the Organization no longer needs the equipment for the program for which the assets were acquired.

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

AUGUST 31, 2007 AND 2006

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Donated items are recorded at fair value as of the date of gift. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support and reclassified to unrestricted support in the year the equipment is purchased and/or placed into service. Absent explicit donor stipulations about how long those long-lived assets must be maintained the Organization reports expirations of donor restrictions when the assets are placed into service.

FEDERAL INCOME TAXES

The Organization is a not-for-profit organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business activities. As such, no provision for Federal income taxes has been made in the accompanying financial statements.

FUNCTIONAL CLASSIFICATION OF EXPENSES

Expenses are categorized by function in the statement of activities as (1) program services, (2) general and administrative, or (3) fundraising expenses. Expenses that are specifically identifiable to a function are allocated entirely to that function. Expenses that are not specifically identifiable to a function are allocated based upon management's estimate of time and resources devoted to the function.

CASH FLOWS

For purposes of cash flows, the Organization includes cash on hand, cash in bank and short-term investments of less than 90 days, as cash equivalents.

ACCOUNTS RECEIVABLE

The Organization has recorded \$1,729,460 as an allowance for doubtful accounts as of August 31, 2007 and 2006. See Note 11 for additional information. The Organization considers the remaining accounts receivable to be fully collectible.

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

AUGUST 31, 2007 AND 2006

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

TEMPORARILY RESTRICTED NET ASSETS

The Organization has temporarily restricted net assets of \$64,725 and \$62,938 as of August 31, 2007 and 2006, respectively, which are restricted for scholarships. There were \$1,000 releases of temporarily restricted net assets relating to these temporarily restricted funds for the years ending August 31, 2007 and none was released in 2006.

GRANTS AND CONTRACTS

The Organization considers all government grants and contracts as exchange transactions rather than contributions. The Organization recognizes revenue from fee for service transactions as services are rendered and for grants as eligible expenditures are incurred. Advances from government agencies are recorded as refundable advances. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PERSONAL LEAVE

Full-time employees earn from 16 to 31 days of personal leave per year based on their years of employment with the Organization. The leave time may be used for personal or family illnesses, vacation, or other personal circumstances.

The maximum amount of personal leave that may be accumulated under this plan is the amount the employee is entitled to take in a two-year period. Unused leave is not payable upon termination. The Organization also allows for annual "cash out" of accrued leave to employees with more than five years of employment with the Organization. The maximum annual "cash out" is one-half of the total leave accrued during one year, and no more than two weeks accrued leave may be cashed out at a time. Therefore, an accrual for employees eligible for the "cash out" has been recorded in these financial statements.

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

AUGUST 31, 2007 AND 2006

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Based on employment laws in California, employees in this state must be paid for accrued, vested vacation time upon termination of employment with the Organization. Therefore, an accrual for unpaid vacation for employees in this state is also recorded in these financial statements for that liability.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reflected in the statements of financial position for financial instruments approximate their respective fair values due to the composition and maturities of those instruments. The Organization has a number of financial instruments, none of which are held for trading purposes.

NOTE 2: NOTES PAYABLE

Notes payable are summarized as follows at August 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Note payable to City of Austin with interest at 3% annually collateralized by real property. The principal amount and interest are due and payable on the earlier of 5 years following the issuance of a certificate of occupancy or May 1, 2012. The maximum principal amount of the loan is \$367,108. The note payable has been structured as a deferred forgivable loan. The City may forgive the full amount of the original loan upon successful completion of the designated restricted use period and compliance with the provisions of the Certificate of Compliance.	\$ 367,108	\$ 157,044
Interest free note payable to City of Austin collateralized by real property. The principal amount is due and payable in equal monthly installments of \$2,600 on the first day of each month, beginning on October 1, 2010 and continuing through August 1, 2030, and the final installment on September 1, 2030. The maximum principal amount of this loan is \$624,000.	<u>624,000</u>	<u>155,344</u>
	<u>\$ 991,108</u>	<u>\$ 312,388</u>

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

AUGUST 31, 2007 AND 2006

NOTE 2: NOTES PAYABLE (Continued)

Future maturities of the notes payable are:

2008	\$	-
2009		-
2010		-
2011		28,600
2012		398,308
Thereafter		564,200
	\$	<u>991,108</u>

The Organization has two federally guaranteed loans outstanding as of August 31, 2007 and 2006 passed through from the City of Austin and funded by the Department of Housing and Urban Development as listed above. Loan amount is requested and granted based on the qualified expenditures incurred on the East Austin project. The amount of proceeds requested and received from the City of Austin was \$643,508 and \$45,046 as of August 31, 2007 and 2006, respectively. The Organization accrued construction in progress as expenditures when incurred. Included in accounts receivable and notes payable to the City of Austin as of August 31, 2007 and 2006 were \$35,212 and \$267,342, respectively, of qualified expenditures incurred during the years ended August 31, 2007 and 2006.

The Organization also has a line of credit for \$3,500,000 with a financial institution. The commitment is collateralized by the Organization's receivables and property. The commitment matures on March 31, 2009 and has an interest rate of prime minus 1.25%. The Organization has not borrowed any funds from this agreement as of August 31, 2007.

NOTE 3: CAPITAL LEASE OBLIGATIONS PAYABLE

The Organization leases certain vehicles under leases classified as capital leases. The following is a schedule showing the future minimum lease payments under capital leases by years and the present value of the minimum lease payments as of August 31, 2007:

<u>Year ending August 31</u>	
2008	\$289,966
2009	214,524
2010	<u>15,645</u>
Total minimum lease payments	520,135
Less: Amount representing interest	<u>46,171</u>
Present value of minimum lease payments	<u>\$ 473,964</u>

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

AUGUST 31, 2007 AND 2006

NOTE 4: OPERATING LEASE AGREEMENTS

The Organization is obligated under certain operating leases for facilities, office space, vehicles, and equipment. These leases are non-cancelable unless the Organization loses its funding. The following is a schedule of the approximate future minimum rental payments required under operating leases that had remaining lease terms of one year or more as of August 31:

	<u>Facilities and Other Space</u>	<u>Vehicles</u>	<u>Total</u>
2008	\$ 1,339,940	\$ 95,054	\$ 1,434,994
2009	991,195	4,266	995,461
2010	570,112	-	570,112
2011	184,499	-	184,499
	<u>\$ 3,085,746</u>	<u>\$ 99,320</u>	<u>\$ 3,185,066</u>

Rent expense for the year ended August 31, 2007 and 2006, was \$2,500,666 and \$2,608,685, respectively.

NOTE 5: RETIREMENT PLAN

The Organization has a Section 401(k) of the Internal Revenue Code deferred compensation plan (Plan). All employees are eligible to participate in the Plan after one year of service with at least 1,000 hours worked each year with the Organization. The Organization will match dollar-for-dollar up to 3% of the employees' compensation for any employee contributions. Employer contributions are 100% vested after 5 years of service. Employer contributions for retirement expenses for the years ended August 31, 2007 and 2006 were \$303,029 and \$256,522, respectively.

NOTE 6: DONATED SERVICES AND MATERIALS

The Organization receives donated educational services from several independent school districts. These services are valued at estimated annual salary and fringe benefit rates paid to educators by the school districts. The estimated value for the fiscal years ended August 31 2007 and 2006 were \$89,323 and \$90,391, respectively.

The Organization has also received donated supplies and services from numerous benefactors. These items have not been recorded for the fiscal years ended August 31, 2007 and 2006, since they do not meet the requirements of SFAS 116.

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

AUGUST 31, 2007 AND 2006

NOTE 7: FEDERAL, STATE AND LOCAL GOVERNMENT ASSISTANCE

The Organization is the recipient of federal, state, and local assistance money to operate its programs. Grants are subject to review and audit by grantor agencies. Such audits could result in noncompliance findings and disallowance of expenditures resulting in requests for reimbursement by the grantor agency. In the opinion of the Organization's management, such disallowance, if any, will not be significant.

NOTE 8: FIXED ASSETS

Fixed assets consist of the following at August 31, 2007 and 2006:

	2007	2006
Land	\$ 159,973	\$ 159,973
Construction in progress	6,403,233	1,486,210
Buildings	1,422,736	1,378,086
Leasehold improvements	96,204	113,095
Vehicles	686,853	97,234
Computer equipment	126,513	120,999
Office equipment	39,586	30,585
Household furniture	1,505	4,329
Kitchen equipment	3,107	15,001
Recreation equipment	663	663
Fire/Security equipment	7,350	1,843
Office furniture	5,380	5,755
Other	2,920	-
	<u>8,956,023</u>	<u>3,413,773</u>
Less accumulated depreciation	<u>(700,551)</u>	<u>(556,774)</u>
Fixed assets, net	<u>\$ 8,255,472</u>	<u>\$ 2,856,999</u>

Depreciation and amortization expense for the year ended August 31, 2007 and 2006 was \$174,548 and \$54,437, respectively.

NOTE 9: CONCENTRATIONS OF CREDIT RISK

The Organization's management believes it has mitigated its concentrations of credit risk in bank accounts by maintaining deposits in several financial institutions, which may at times exceed amounts covered by the U.S. Federal Deposit Insurance Corporation (FDIC). The maximum loss that could result from this concentration risk is \$4,453,029 and \$6,431,684 as of August 31, 2007 and 2006, respectively, for the excess of the deposit liabilities reported by the banks over the amounts that would have been covered by the FDIC. However, in the event of bank liquidation, the excess deposits in

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

AUGUST 31, 2007 AND 2006

NOTE 9: CONCENTRATIONS OF CREDIT RISK (Continued)

the bank would reduce any balance on the outstanding line of credit note. The Organization's management believes it is not exposed to any significant concentrations of credit risk in its cash as JP Morgan Chase Bank is one of the largest financial institutions in the United States of America.

Management believes concentrations of credit risk in trade receivables are limited due to contracts with federal, state and local government agencies and other non-governmental agencies which management believes are credit quality. As of August 31, 2007 and 2006, the Organization had no significant concentrations of credit risk in trade receivables.

NOTE 10: CONCENTRATION OF PROGRAM SERVICES

The Organization receives a substantial amount of its revenue from federal, state and local government agencies, and private contributions. If there were a significant reduction in the quantity of clients served, contracts renewed, or contributions received, then programs and activities would require adjustments accordingly.

NOTE 11: SELF-INSURANCE PLAN

The Organization is self-insured for losses related to employee health benefits. The Organization purchases stop loss insurance for individual health claims. Losses of more than \$50,000 for each employee incurred each year are covered by excess insurance. Additionally, insurance covers aggregate expenses in excess of \$1,000,000. A liability of \$1,137,938 and \$986,257 has been recorded at August 31, 2007 and 2006, respectively, to cover claims that are incurred but not reported if the Organization changes away from being self-insured.

NOTE 12: COMMITMENTS AND CONTINGENCIES

The Organization is the defendant in several pending lawsuits. Legal counsel has provided the Organization with information concerning claims and assessments; however, most of these cases have not gone to trial and an ultimate resolution is uncertain as of the date of this report. The Organization's management is appealing and/or vigorously contesting all of the claims. In the event of an unfavorable outcome, management believes that insurance coverage should be adequate. No accrual for contingent liabilities, if any, has been reported in these financial statements for these matters.

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

AUGUST 31, 2007 AND 2006

NOTE 12: COMMITMENTS AND CONTINGENCIES (Continued)

The Organization has recorded an estimated accrued liability for unemployment tax in Puerto Rico of \$221,271 as of August 31, 2007 and 2006. In Puerto Rico, a company is responsible for paying unemployment to a former employee until the employee finds another job. There is no term or limitation on the unemployment payout by a former employer. The management of the Organization believes the August 31, 2007 and 2006, estimated accrual is reasonable.

The Organization and two of its funding sources are in dispute over a contract payment of approximately \$1.7 million dollars. The Organization has recorded an allowance of \$1,729,460 for the years ended August 31, 2007 and 2006 for potential uncollectible portions. Management is vigorously contesting this claim and no liability has been recorded in these financial statements for this claim.

The Organization has also accrued an estimated accrued liability for Christmas bonuses and related taxes under the above disputed contract of approximately \$169,000 for the years ended August 31, 2007 and 2006, for services rendered. Management intends to pay this liability upon resolution of litigation with former employees.

The Organization has a commitment with an architect for the East Side Building. The contract is for approximately \$450,000. However, the contract can be terminated by either party with seven days notice and no penalties.

The Organization has a commitment with a general contractor for the East Side Building. The contract is for approximately \$6,990,000. The Organization has paid \$5,037,216 for this commitment as of August 31, 2007.

NOTE 13: RENTAL INCOME AND ASSETS HELD FOR SALE

The Organization leased an office building in North Dakota to unrelated tenants. The net rental income was subject to unrelated business income taxes; however, no provision for income taxes has been provided in these financial statements due to immaterial balances.

Since the Organization does not plan to have any program development in the North Dakota area in the near future and maintaining a rental property in North Dakota does not concur with the whole agency business direction, the Organization sold the facility in North Dakota in September 2005. The total carrying value of assets held for sale was \$1,253,059 and it was sold for a loss of \$123,807 during the year ended August 31, 2006.

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

AUGUST 31, 2007 AND 2006

NOTE 14: CHILD CARE PASS-THROUGH

During the years ending August 31, 2007 and 2006, the Organization served as a pass-through agent from Cameron Works, Inc. for \$10,178,864 and \$10,895,068, respectively, of funds intended solely for distribution to vendors and/or clients of the Texas Workforce Commissions' Direct Child Care Distribution System (DCCDS).

NOTE 15: GEORGIA PROGRAMS

During the years ending August 31, 2007 and 2006, the Organization received a total funding of \$3,084,167 and \$2,877,172, respectively, from Department of Juvenile Justice in Georgia for youth tracking services. During the year ending August 31, 2007 and 2006, the Organization also received a total funding of \$67,854 and \$28,130, respectively, from Department of Juvenile Justice in Georgia for wrap-around services.

NOTE 16: INDIRECT COST RATE

The indirect cost rate is 15.4% and 13.1% for the years ended August 31, 2007 and 2006, respectively.

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

AUGUST 31, 2007 AND 2006

NOTE 17: FUNCTIONAL EXPENSES

Functional expenses are summarized as follows for the year ended August 31, 2007:

	Program Services	General and Administrative	Fund Raising	2007 Total
Salaries	\$ 18,473,129	\$ 3,002,593	\$ -	\$ 21,475,722
Payroll taxes	1,523,964	218,222	-	1,742,186
Worker Compensation	414,083	25,892	-	439,975
Group & Disability Insurance	2,349,336	257,371	-	2,606,707
Retirement	<u>241,201</u>	<u>61,828</u>	-	<u>303,029</u>
Total Personnel Costs	23,001,713	3,565,906	-	26,567,619
Childcare Reimbursements	10,178,864	-	-	10,178,864
Building Rent	1,645,380	283,918	-	1,929,298
Telephone	755,564	72,696	-	828,260
Participant Subsidies & Asstance	718,676	-	-	718,676
Repair & Maintanance	592,165	12,318	-	604,483
Contractual	416,636	173,763	-	590,399
Travel	398,381	177,950	-	576,331
Utilities	514,209	13,616	-	527,825
Vehicle Leases	419,987	12,835	-	432,822
Insurance	395,034	30,826	-	425,860
Vehicle Expenses	421,574	2,671	-	424,245
Food Expense	403,730	-	-	403,730
Computer Equipment	195,656	72,711	-	268,367
Office Supplies	217,519	46,290	-	263,809
Employee Training	207,013	41,488	-	248,501
Household Supplies	214,120	-	-	214,120
Depreciation	158,466	16,082	-	174,548
Professional Expenses	22,874	147,721	-	170,595
Education Supplies	149,132	-	-	149,132
Household Furniture & Appliances	127,957	-	-	127,957
Kitchen Equipment & Supplies	126,340	-	-	126,340
Recreation & Equipment	126,170	-	-	126,170
Fire & Security System	121,135	1,251	-	122,386
Payroll Service	99,040	12,575	-	111,615
Taxes	109,631	198	-	109,829
Copier Rent	82,305	25,365	-	107,670
Postage & Freight	90,230	16,043	-	106,273
In-kind Donation Expenses	89,323	-	-	89,323
Dues & Supscriptions	38,518	23,816	-	62,334
Fundraising	-	-	59,730	59,730
Employee Activities & Recognition	33,159	21,099	-	54,258
Advertising	35,696	14,251	-	49,947
Medical Expense	45,781	-	-	45,781
Office Equipment	20,601	19,007	-	39,608
Office Furniture	28,879	599	-	29,478
Interest Expense	20,217	8,225	-	28,442
Miscellaneous	6,326	12,046	-	18,372
Office Equipment Rental	4,394	12,871	-	17,265
COA Pass Through Reimbursement	8,754	-	-	8,754
Copying & Printing	2,355	3,893	-	6,248
Evacuation	4,242	-	-	4,242
Bank & Service Fees	109	3,671	-	3,780
Loss on Disposal of Assets	194	2,462	-	2,656
Community Activity Award	-	2,485	-	2,485
Classroom furniture	1,482	-	-	1,482
Pager Rental	<u>978</u>	<u>-</u>	<u>-</u>	<u>978</u>
Total Expenses	<u>\$ 42,250,509</u>	<u>\$ 4,850,648</u>	<u>\$ 59,730</u>	<u>\$ 47,160,887</u>

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

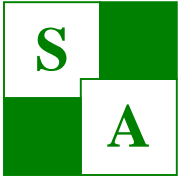
AUGUST 31, 2007 AND 2006

NOTE 17: FUNCTIONAL EXPENSES (Continued)

Functional expenses are summarized as follows for the year ended August 31, 2006:

	Program Services	General and Administrative	Fund Raising	2006 Total
Salaries	\$ 17,175,359	\$ 2,584,105	\$ -	\$ 19,759,464
Payroll taxes	1,525,388	198,634	-	1,724,022
Worker Compensation	473,296	29,779	-	503,075
Group & Disability Insurance	1,911,280	198,149	-	2,109,429
Retirement	202,311	54,211	-	256,522
Total Personnel Costs	21,287,634	3,064,878	-	24,352,512
Childcare Reimbursements	10,895,068	-	-	10,895,068
Building Rent	1,740,755	250,623	-	1,991,378
Repair & Maintenance	1,351,054	11,323	-	1,362,377
Travel	771,073	163,584	-	934,657
Participant Subsidies & Assistance	763,401	-	-	763,401
Telephone	642,274	54,064	-	696,338
Utilities	558,611	5,271	-	563,882
Vehicle Leases	495,280	5,946	-	501,226
Food Expense	470,005	-	-	470,005
Insurance	421,056	22,469	-	443,525
Vehicle Expenses	344,690	1,330	-	346,020
Employee Training	248,527	48,376	-	296,903
Office Supplies	225,110	42,063	-	267,173
Computer Equipment	194,128	70,546	-	264,674
Household Supplies	263,672	-	-	263,672
Education Supplies	230,005	100	-	230,105
Contractual	131,135	96,520	-	227,655
Fire & Security System	155,953	74	-	156,027
Recreation & Equipment	141,836	-	-	141,836
Kitchen Equipment & Supplies	126,527	-	-	126,527
Loss on Disposal of Assets	123,975	-	-	123,975
Professional Expenses	27,035	80,419	-	107,454
Postage & Freight	87,349	17,050	-	104,399
Payroll Service	94,790	6,849	-	101,639
Taxes	98,115	14	-	98,129
Copier Rent	70,983	25,651	-	96,634
In-kind Donation Expenses	90,391	-	-	90,391
Household Furniture & Appliances	66,447	-	-	66,447
Advertising	53,022	7,039	-	60,061
Medical Expense	56,546	-	-	56,546
Depreciation	44,447	9,990	-	54,437
Evacuation	54,100	-	-	54,100
Employee Activities & Recognition	25,089	21,991	-	47,080
Fundraising	-	-	40,558	40,558
Dues & Subscriptions	27,857	7,001	-	34,858
Office Furniture	32,277	406	-	32,683
Office Equipment Rental	2,720	15,780	-	18,500
Bank & Service Fees	25	10,345	-	10,370
Miscellaneous	3,741	4,207	-	7,948
Motor Vehicle	7,946	-	-	7,946
Office Equipment	6,161	1,549	-	7,710
Copying & Printing	5,841	954	-	6,795
Bad Debt Expense	6,629	-	-	6,629
Community Activity Award	1,500	3,629	-	5,129
Pager Rental	952	-	-	952
Total Expenses	\$ 42,445,732	\$ 4,050,041	\$ 40,558	\$ 46,536,331

GOVERNMENT AUDITING STANDARDS REPORTS



SPROUSE & ANDERSON, L.L.P.
ACCOUNTANTS & CONSULTANTS

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*

Board of Directors
Southwest Key Programs, Inc.

We have audited the financial statements of Southwest Key Programs, Inc. as of and for the year ended August 31, 2007, and have issued our report thereon dated December 20, 2007. 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 Southwest Key Programs, Inc.'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 Southwest Key Programs, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Southwest Key Programs, Inc.'s internal control over financial reporting.

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 misstatements on a timely basis. A significant deficiency is a control deficiency, or 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 Southwest Key Programs, Inc.'s financial statements 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 misstatement of the financial statements will not be prevented or detected by Southwest Key Programs, Inc.'s internal control.

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

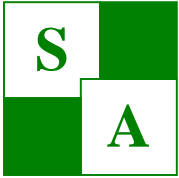


COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Southwest Key Programs, Inc.'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*.

This report is intended solely for the information and use of the Board of Directors, management, others within Southwest Key Programs Inc., and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

December 20, 2007
Austin, Texas



SPROUSE & ANDERSON, L.L.P.

ACCOUNTANTS & CONSULTANTS

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

Board of Directors
Southwest Key Programs, Inc.

COMPLIANCE

We have audited the compliance of Southwest Key Programs, Inc. 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 each of its major federal programs for the year ended August 31, 2007. Southwest Key Programs, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Southwest Key Programs, Inc.'s management. Our responsibility is to express an opinion on Southwest Key Programs, Inc.'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 Southwest Key Programs, Inc.'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 of Southwest Key Programs, Inc.'s compliance with those requirements.

In our opinion, Southwest Key Programs, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2007.

INTERNAL CONTROL OVER COMPLIANCE

The management of Southwest Key Programs, Inc. 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 Southwest Key Programs, Inc.'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 compliance. Accordingly, we do not express an opinion on the effectiveness of Southwest Key Programs, Inc.'s internal control over compliance.

A control deficiency in an entity'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 to 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 entity'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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity'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, others within Southwest Key Programs Inc., and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

December 20, 2007
Austin, Texas

SOUTHWEST KEY PROGRAMS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2007

<u>Federal Grantor\Pass-Through Grantor\Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass- Through Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Health and Human Services</u>			
Administration for Children & Families	93.676	90ZU0018/01	\$ 201,980
Administration for Children & Families	93.676	90ZU0019/01	156,809
Administration for Children & Families	93.676	90ZU0020/01	119,640
Administration for Children & Families	93.676	90ZU0024/01	293,932
Administration for Children & Families	93.676	90ZU0029/01	136,383
Administration for Children & Families	93.676	90ZU0030/01	664,107
Administration for Children & Families	93.676	90ZU0035/01	58,520
Administration for Children & Families	93.676	90ZU0012/02	103,270
Total Direct Costs			1,734,641
Indirect Costs			193,865
			<u>1,928,506</u>
Administration for Children & Families	93.676	90ZU0018/02	2,676,815
Administration for Children & Families	93.676	90ZU0019/02	2,200,158
Administration for Children & Families	93.676	90ZU0020/02	1,683,531
Administration for Children & Families	93.676	90ZU0024/02	4,843,036
Administration for Children & Families	93.676	90ZU0029/02	990,606
Administration for Children & Families	93.676	90ZU0030/02	4,709,433
Administration for Children & Families	93.676	90ZU0035/02	657,278
Administration for Children & Families	93.676	90ZU0012/03	1,389,326
Total Direct Costs			19,150,183
Indirect Costs			2,457,257
			<u>21,607,440</u>
Total for FY2007			<u>23,535,946</u>
Promoting Responsible Fatherhood	93.086	90FR0034/01	367,965
Indirect Costs			29,617
			<u>397,582</u>
Passed through the Milwaukee County Department of Human Services			
Social Services Block Grant	93.667	40-05618-4002	571,236
Indirect Costs		40-06618-400	74,609
			<u>645,845</u>
Passed through the Texas Workforce Commission and Cameron Works, Inc.			
Child Care - Administration	93.575	2405CCF000-04-05-01	909,786
Child Care - Reimbursement	93.575	2405CCF000-04-05-01	10,178,864
Indirect Costs			131,919
			<u>11,220,569</u>

SEE ACCOMPANYING NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHWEST KEY PROGRAMS, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)**

FOR THE YEAR ENDED AUGUST 31, 2007

<u>Federal Grantor\Pass-Through Grantor\Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass- Through Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed through Texas Health and Human Services Commission National School Lunch Program	10.555	75-Q1009	\$ <u>362,532</u>
Passed through Arizona Department of Education National School Lunch Program	10.555	07-27-81-000	<u>171,930</u>
Passed through California Department of Education National School Lunch Program	10.555	60-346039015496-01	<u>40,558</u>
<u>U.S. Department of Justice</u>			
Passed through the Office of the Governor, Criminal Justice division The Girl's Empowerment Program	16.575	VA-06-V30-18204-01	<u>69,899</u>
School Violence Prevention Program Indirect Costs	84.186	ED-06-J21-18391-01	<u>97,897</u> <u>1,958</u> <u>99,855</u>
Passed through the office of Justice Programs OJJDP Congressional Earmark Program Indirect Costs	16.541	2005JL-FX-0052	218,220 <u>28,587</u> <u>246,807</u>
<u>U.S. Department of Commerce</u>			
Economic Development Administration	11.300	08-01-03922	<u>1,071,919</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the City of Austin Community Development Block Grant	14.218	PC723LN000235	210,064
Community Development Block Grant	14.218	PC723LN000237	<u>468,656</u> <u>678,720</u>
Total Federal Awards			<u>\$ 38,542,162</u>

SEE ACCOMPANYING NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHWEST KEY PROGRAMS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2007

NOTE 1: GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal financial assistance programs of the Southwest Key Programs, Inc. (Organization). The Organization's structure is defined in note 1 to the financial statements.

NOTE 2: BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting where grant revenues are recognized as expenditures incurred.

NOTE 3: RELATIONSHIP TO FINANCIAL STATEMENTS

Federal financial assistance funding from U.S. Department of Commerce is reported in the Organization's financial statements for the year ended August 31, 2006 as grant and contract revenue while federal financial assistance funding from the U.S. Department of Housing and Urban Development is included with notes payable.

NOTE 4: RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule may not agree with the amounts reported in the related federal financial reports filed with the grantor agencies due to timing differences.

NOTE 5: LOANS

In addition to federal awards involving expenditures in 2007 and 2006, the Organization has one federally guaranteed loan outstanding as of August 31, 2007 and 2006 passed through from the City of Austin and funded by the Department of Housing and Urban Development. This loan related to the Community Development Block Grant (CFDA 14.218). The balance of the loan at August 31, 2007 is \$678,720 and had expenditures during the year. There are no continuing compliance requirements for this loan.

SOUTHWEST KEY PROGRAMS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2007

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered material weakness(es)?	None noted
Noncompliance material to financial statements noted?	None

FEDERAL AWARDS

Internal controls over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered material weakness(es)?	None noted
Type of auditors' report issued on compliance with major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Major programs:	U.S. Department of Health and Human Services Administration for Children and Families - CFDA #93.676
	U.S. Department of Commerce Economic Development Administration - CFDA #11.300
	U.S. Department of Housing and Urban Development Pass Through the City of Austin-CFDA #14.218

SOUTHWEST KEY PROGRAMS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2007

I. SUMMARY OF AUDITORS' RESULTS (Continued)

Dollar threshold used to distinguish between Type A and
Type B programs: \$1,135,903

Auditee qualified as a low-risk auditee? Yes

II. FINANCIAL STATEMENT FINDINGS

None noted.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

IV. PRIOR YEAR FINDINGS

None noted.

SUPPLEMENTARY INFORMATION



SPROUSE & ANDERSON, L.L.P.
ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Southwest Key Programs, Inc.

Our report on our audit of the basic financial statements of Southwest Key Programs, Inc. (Organization) for the year ended August 31, 2007, appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules presented on pages 29 to 32 are presented for purposes of additional analysis and are 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.

December 20, 2007
Austin, Texas

SOUTHWEST KEY PROGRAMS, INC.

COMBINING SCHEDULE OF REVENUES AND EXPENDITURES -
MILWAUKEE COUNTY DEPARTMENT OF HUMAN SERVICES PROGRAMS

FOR THE YEAR ENDED AUGUST 31, 2007
(WITH COMPARATIVE TOTAL FOR THE YEAR ENDED AUGUST 31, 2006)

	Home Transition Program	Wraparound Program	2007 Total	2006 Total
REVENUE				
Milwaukee County	\$ 645,845	\$ -	\$ 645,845	\$ 651,083
EXPENSES				
Salaries Expense	342,652	-	342,652	352,307
Payroll Taxes	31,939	-	31,939	35,773
Workers Compensation	4,260	-	4,260	4,162
Group & Disability	52,953	-	52,953	46,258
Retirement	5,971	-	5,971	6,920
Total Personnel Costs	437,775	-	437,775	445,420
Building Lease	26,310	-	26,310	24,580
Travel	23,438	-	23,438	22,261
Answering Service	19,262	-	19,262	13,113
Telephone	14,632	-	14,632	17,822
Insurance	10,020	-	10,020	8,989
Vehicle Gas & Oil	9,040	-	9,040	8,198
Maintenance & Repairs	8,212	-	8,212	(1,188)
Recreation	7,295	-	7,295	11,190
Office Supplies	3,134	-	3,134	3,164
Professional Fees	2,350	-	2,350	300
Copier Rental	2,209	-	2,209	2,216
Utilities	1,966	-	1,966	2,315
Payroll Service	1,431	-	1,431	1,481
Postage	1,368	-	1,368	1,646
Employee Training	1,227	-	1,227	2,054
Vehicle Lease	756	-	756	1,905
Advertising	424	-	424	1,440
Dues & Subscriptions	135	-	135	60
Computer Supplies	30	-	30	546
Computer Equipment & Software	-	-	-	898
Office Furniture	-	-	-	62
Indirect Costs	74,609	-	74,609	75,921
Total Expenses	645,623	-	645,623	644,393
Excess (Deficit of) Revenue Over (Under) Expenses	\$ 222	\$ -	\$ 222	\$ 6,690

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

SOUTHWEST KEY PROGRAMS, INC.

COMBINING SCHEDULE - HOME TRANSITION PROGRAM
MILWAUKEE COUNTY DEPARTMENT OF HUMAN SERVICES PROGRAMS

FOR THE YEAR ENDED AUGUST 31, 2007

	9/1/2006 <u>12/31/2006</u>	1/1/2007 <u>8/31/2007</u>	<u>Total</u>
REVENUE			
Milwaukee County	\$ 219,630	\$ 426,215	\$ 645,845
EXPENSES			
Salaries Expense	116,084	226,568	342,652
Payroll Taxes	9,753	22,186	31,939
Workers Compensation	1,355	2,905	4,260
Group & Disability	17,213	35,740	52,953
Retirement	<u>2,175</u>	<u>3,796</u>	<u>5,971</u>
Total Personnel Costs	146,580	291,195	437,775
Building Lease	8,520	17,790	26,310
Travel	8,272	15,166	23,438
Answering Service	6,209	13,053	19,262
Telephone	5,151	9,481	14,632
Insurance	3,329	6,691	10,020
Vehicle Gas & Oil	2,547	6,493	9,040
Maintenance & Repairs	5,231	2,981	8,212
Recreation	2,588	4,707	7,295
Office Supplies	864	2,270	3,134
Professional Fees	2,000	350	2,350
Copier Rental	739	1,470	2,209
Utilities	718	1,248	1,966
Payroll Service	538	893	1,431
Postage	393	975	1,368
Employee Training	102	1,125	1,227
Vehicle Lease	252	504	756
Advertising	-	424	424
Dues & Subscriptions	135	-	135
Computer Supplies	-	30	30
Indirect Costs	<u>25,242</u>	<u>49,367</u>	<u>74,609</u>
Total Expenses	<u>219,410</u>	<u>426,213</u>	<u>645,623</u>
Revenue in Excess of Expenses	<u>\$ 220</u>	<u>\$ 2</u>	<u>\$ 222</u>

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

SOUTHWEST KEY PROGRAMS, INC.

**COMBINING SCHEDULE - WRAPAROUND PROGRAM
MILWAUKEE COUNTY DEPARTMENT OF HUMAN SERVICES PROGRAMS**

FOR THE YEAR ENDED AUGUST 31, 2007

	<u>9/1/2006</u> <u>12/31/2006</u>	<u>1/1/2007</u> <u>8/31/2007</u>	<u>Total</u>
REVENUE			
Milwaukee County	\$ -	\$ -	\$ -
EXPENSES			
Salaries Expense	-	-	-
Payroll Taxes	-	-	-
Workers Compensation	-	-	-
Group & Disability	-	-	-
Retirement	-	-	-
Total Personnel Costs	<u>-</u>	<u>-</u>	<u>-</u>
Contract Labor	-	-	-
Travel	-	-	-
Employee Training	-	-	-
Food Expense	-	-	-
Household Supplies	-	-	-
Client Personal Items	-	-	-
Educational Supplies	-	-	-
Recreation	-	-	-
Client Stipends	-	-	-
Building Lease	-	-	-
Utilities	-	-	-
Telephone	-	-	-
Answering Service	-	-	-
Office Supplies	-	-	-
Postage	-	-	-
Advertising	-	-	-
Office Equipment	-	-	-
Computer Equipment & Software	-	-	-
Office Furniture	-	-	-
Vehicle Lease	-	-	-
Copier Rental	-	-	-
Pager Rental	-	-	-
Maint. & Repair	-	-	-
Vehicle Gas & Oil	-	-	-
Employee Recognition & Activities	-	-	-
Insurance	-	-	-
Professional Fees	-	-	-
Dues & Subscriptions	-	-	-
Payroll Service	-	-	-
Depreciation Expense	-	-	-
Disposition of Asset	-	-	-
Indirect Costs	-	-	-
Total Expenses	<u>-</u>	<u>-</u>	<u>-</u>
Excess Revenues Over Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

SOUTHWEST KEY PROGRAMS, INC.

SCHEDULE OF REVENUES AND EXPENSES -
CAMERON WORKS - DIRECT CHILD CARE DISTRIBUTIONS SYSTEM

FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
REVENUE		
Cameron Works	\$ 1,041,705	\$ 1,024,345
Cameron - Childcare Reimbursement	<u>10,178,864</u>	<u>10,895,068</u>
Total Revenue	<u>11,220,569</u>	<u>11,919,413</u>
EXPENSES		
Salaries Expense	690,548	684,869
Payroll Taxes	54,202	58,043
Workers Compensation	6,009	7,500
Health & Disability Insurance	117,445	103,651
Retirement	<u>17,310</u>	<u>14,202</u>
Total Personnel Costs	885,514	868,265
Childcare Reimbursement Expense	10,178,864	10,895,068
Travel	7,860	9,583
Payroll Service	5,582	6,519
Insurance	4,439	7,841
Training	2,552	-
Contractual	2,058	-
Postage & Freight	1,239	1,560
Office Supplies	542	695
Bad Debt	-	6,629
Indirect Costs	<u>131,919</u>	<u>129,883</u>
Total Expense	<u>11,220,569</u>	<u>11,926,043</u>
Expenses in excess of revenue	<u>\$ -</u>	<u>\$ (6,630)</u>

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION