

WESLEY HOUSE FAMILY SERVICES, INC.

**FINANCIAL STATEMENTS
and
SUPPLEMENTAL INFORMATION**

June 30, 2011 and 2010

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3 - 4
Statement of Activities.....	5 - 6
Statement of Functional Expenses.....	7 - 8
Statements of Cash Flows.....	9 - 10
Notes to Financial Statements	11 - 23
SUPPLEMENTAL INFORMATION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24 - 25
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect On Each Major Program and State Project on Internal Control Over Compliance In Accordance with OMB Circular A-133 and Chapter 10.650 Rules of the Auditor General.....	26 - 27
Schedule of Expenditures of Federal Awards and State Projects.....	28 - 29
Notes to Schedule of Expenditures of Federal Awards and State Projects	30
Schedule of Findings and Questioned Costs – Federal Awards and State Projects.....	31 - 32
Summary Schedule of Prior Audit Findings	33

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Wesley House Family Services, Inc.
Key West, Florida

We have audited the accompanying statements of financial position of Wesley House Family Services, Inc. (Wesley House) (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Wesley House's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Wesley House as of June 30, 2010 were audited by The NCT Group, CPA's LLP (whose practice became a part of LarsonAllen LLP effective July 1, 2011) whose report dated October 6, 2010 expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wesley House Family Services, Inc. as of June 30, 2011 and 2010, and the changes in its net assets 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 November 9, 2011, on our consideration of Wesley House Family Services, 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 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 conducted for the purpose of forming an opinion on the basic financial statements of Wesley House taken as a whole. The accompanying schedule of expenditures of federal awards and state projects is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, Rules of the Auditor General, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

LarsonAllen LLP
LarsonAllen LLP

November 9, 2011

WESLEY HOUSE FAMILY SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

ASSETS	2011	2010
Current assets		
Cash and cash equivalents	\$ 1,786,068	\$ 1,513,826
Cash - restricted	157,806	268,119
Certificates of deposit	204,024	237,978
Investments	136,597	27,866
Grants receivable	1,173,429	1,050,250
Contributions receivable, current portion	112,472	113,564
Other accounts receivable	24,246	40,603
Prepaid and other assets	73,074	71,454
Total current assets	<u>3,667,716</u>	<u>3,323,660</u>
Fixed assets		
Land	318,193	318,193
Buildings	2,902,450	2,902,450
Building improvements	1,319,641	1,318,115
Furniture and fixtures	40,413	40,413
Equipment	340,059	321,272
Total fixed assets	<u>4,920,756</u>	<u>4,900,443</u>
Less accumulated depreciation	<u>(1,351,217)</u>	<u>(1,145,866)</u>
Fixed assets, net	<u>3,569,539</u>	<u>3,754,577</u>
Contributions receivable, less current portion	1,093,920	1,206,391
Financing costs, net of accumulated amortization of \$50,840 and \$45,752, respectively	<u>-</u>	<u>5,088</u>
Total assets	<u><u>\$ 8,331,175</u></u>	<u><u>\$ 8,289,716</u></u>

WESLEY HOUSE FAMILY SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION (continued)
June 30, 2011 and 2010

LIABILITIES AND NET ASSETS	2011	2010
Current liabilities		
Accounts payable	\$ 351,356	\$ 460,075
Accrued expenses	235,949	355,073
Deferred revenue	100,549	-
Current portion of long-term debt	18,644	34,419
Total current liabilities	<u>706,498</u>	<u>849,567</u>
Interest rate swap agreement	2,283	28,993
Long-term debt, net of current portion	<u>467,113</u>	<u>485,759</u>
Total liabilities	<u>1,175,894</u>	<u>1,364,319</u>
Net assets		
Unrestricted		
Undesignated	5,229,045	4,510,808
Board designated other	428,524	809,708
Total unrestricted net assets	<u>5,657,569</u>	<u>5,320,516</u>
Temporarily restricted	1,367,776	1,474,945
Permanently restricted endowment funds	<u>129,936</u>	<u>129,936</u>
Total net assets	<u>7,155,281</u>	<u>6,925,397</u>
Total liabilities and net assets	<u>\$ 8,331,175</u>	<u>\$ 8,289,716</u>

See accompanying notes to financial statements.

WESLEY HOUSE FAMILY SERVICES, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support				
Grants	\$ 9,607,507	\$ 2,000	\$ -	\$ 9,609,507
Program fees	634,304	-	-	634,304
Special events	132,877	-	-	132,877
Contributions	37,891	34,567	-	72,458
Donated services	65,256	-	-	65,256
Unrealized gain on derivative	26,710	-	-	26,710
Interest income	22,180	2,702	-	24,882
Interest income on contributions receivable	19,289	-	-	19,289
United Way	10,000	-	-	10,000
Unrealized gain on investments	-	5,441	-	5,441
Miscellaneous	107,470	-	-	107,470
Net assets released from restrictions	151,879	(151,879)	-	-
Total revenues and other support	10,815,363	(107,169)	-	10,708,194
Expenses				
Program services				
Community based care	4,432,564	-	-	4,432,564
Child care and provider services	4,934,383	-	-	4,934,383
Child care sites	867,083	-	-	867,083
Management and general				
Facility	35,234	-	-	35,234
Administration	136,790	-	-	136,790
Other support services	24,457	-	-	24,457
Fundraising	47,799	-	-	47,799
Total expenses	10,478,310	-	-	10,478,310
Change in net assets	337,053	(107,169)	-	229,884
Net assets, beginning of year	5,320,516	1,474,945	129,936	6,925,397
Net assets, end of year	\$ 5,657,569	\$ 1,367,776	\$ 129,936	\$ 7,155,281

See accompanying notes to financial statements.

WESLEY HOUSE FAMILY SERVICES, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support				
Grants	\$ 9,408,686	\$ -	\$ -	\$ 9,408,686
Program fees	652,245	-	-	652,245
Special events	106,671	1,179	-	107,850
Contributions	-	64,468	-	64,468
Donated services	36,849	-	-	36,849
Unrealized gain on derivative	22,035	-	-	22,035
Interest income	1,424	2,305	-	3,729
Interest income on contributions receivable	25,597	-	-	25,597
United Way	10,000	-	-	10,000
Unrealized gain on investments	6,650	-	-	6,650
Gain on sale of fixed asset	944	-	-	944
Miscellaneous	97,006	-	-	97,006
Net assets released from restrictions	153,721	(153,721)	-	-
Total revenues and other support	10,521,828	(85,769)	-	10,436,059
Expenses				
Program services				
Community based care	4,844,292	-	-	4,844,292
Child care and provider services	4,744,729	-	-	4,744,729
Child care sites	752,331	-	-	752,331
Management and general				
Administration	69,882	-	-	69,882
Other support services	26,145	-	-	26,145
Fundraising	53,048	-	-	53,048
Total expenses	10,490,427	-	-	10,490,427
Change in net assets	31,401	(85,769)	-	(54,368)
Net assets, beginning of year	5,289,115	1,560,714	129,936	6,979,765
Net assets, end of year	\$ 5,320,516	\$ 1,474,945	\$ 129,936	\$ 6,925,397

See accompanying notes to financial statements.

WESLEY HOUSE FAMILY SERVICES
STATEMENT OF FUNCTIONAL EXPENSES, INC.
Year Ended June 30, 2011

	Program Services				Management and General					
	Community Based Care	Child Care and Provider Services	Child Care Sites	Total Program Services	Facility	Administration	Other Support	Total Management and General	Fundraising	Total
Salary and wages	\$ 2,004,563	\$ 362,497	\$ 386,122	\$ 2,753,182	\$ 39,511	\$ 701,690	\$ -	\$ 741,201	\$ -	\$ 3,494,383
Benefits and payroll taxes	460,264	87,829	104,208	652,301	10,411	166,902	-	177,313	-	829,614
Subcontracted care	633,779	3,921,985	-	4,555,764	-	-	-	-	-	4,555,764
Rent	42,590	100	99,492	142,182	218,525	4,278	-	222,803	-	364,985
Depreciation and amortization	6,064	-	71,417	77,481	96,319	20,258	16,460	133,037	-	210,518
Professional fees	59,600	15,520	-	75,120	-	104,430	-	104,430	-	179,550
Flex funds expenditures	120,884	5,974	(466)	126,392	-	1,563	-	1,563	-	127,955
Travel	82,497	10,691	95	93,283	647	3,872	-	4,519	-	97,802
Staff training	62,329	11,488	1,301	75,118	-	8,345	-	8,345	-	83,463
Utilities	281	-	24,599	24,880	35,102	12,125	-	47,227	-	72,107
Telephone	29,339	2,915	2,662	34,916	15,669	10,854	-	26,523	-	61,439
Office, operating supplies	19,197	18,831	1,535	39,563	5,923	12,166	885	18,974	-	58,537
Food and personal care	5,005	41	51,710	56,756	-	-	-	-	-	56,756
Fundraising	-	-	-	-	-	-	-	-	47,799	47,799
Maintenance	5	-	22,963	22,968	17,828	9,761	-	27,589	-	50,557
Insurance	5,031	1,833	346	7,210	15,879	17,179	3,737	36,795	-	44,005
Interest	-	-	-	-	36,586	-	-	36,586	-	36,586
Licenses and hiring	14,470	45	1,024	15,539	-	129	-	129	-	15,668
Purchase of services	5,220	1,970	-	7,190	544	-	1,287	1,831	-	9,021
Miscellaneous	15,307	42,598	2,248	60,153	718	18,842	2,088	21,648	-	81,801
Total expenses	3,566,425	4,484,317	769,256	8,819,998	493,662	1,092,394	24,457	1,610,513	47,799	10,478,310
Allocation of facility costs	224,759	125,391	-	350,150	(461,380)	111,230	-	(350,150)	-	-
Allocation of administration costs	641,380	324,675	97,827	1,063,882	2,952	(1,066,834)	-	(1,063,882)	-	-
Total expenses after allocation	\$ 4,432,564	\$ 4,934,383	\$ 867,083	\$ 10,234,030	\$ 35,234	\$ 136,790	\$ 24,457	\$ 196,481	\$ 47,799	\$ 10,478,310

See accompanying notes to financial statements.

WESLEY HOUSE FAMILY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2010

	Program Services				Management and General					
	Community	Child Care	Child Care	Total	Facility	Administration	Other	Total	Fundraising	Total
	Based	and Provider	Care	Program						
Care	Services	Sites	Services				and General			
Salary and wages	\$ 2,180,525	\$ 373,301	\$ 338,779	\$ 2,892,605	\$ 29,881	\$ 623,103	\$ -	\$ 652,984	\$ -	\$ 3,545,589
Benefits and payroll taxes	450,386	78,950	77,010	606,346	8,709	117,413	-	126,122	-	732,468
Subcontracted care	815,022	3,733,646	-	4,548,668	-	-	-	-	-	4,548,668
Rent	21,642	100	101,292	123,034	216,160	4,576	-	220,736	-	343,770
Depreciation and amortization	6,388	-	71,222	77,610	96,680	18,455	16,399	131,534	-	209,144
Professional fees	37,862	18,320	-	56,182	-	14,726	-	14,726	-	70,908
Flex funds expenditures	176,144	30	3,523	179,697	-	3,880	-	3,880	-	183,577
Travel	94,382	11,497	27	105,906	44	4,078	-	4,122	-	110,028
Staff training	79,944	36,081	114	116,139	-	2,598	-	2,598	-	118,737
Utilities	3,320	-	24,328	27,648	35,214	-	-	35,214	-	62,862
Telephone	40,200	3,319	3,915	47,434	32,794	17,149	-	49,943	-	97,377
Office, operating supplies	21,673	17,119	521	39,313	5,352	13,703	396	19,451	-	58,764
Food and personal care	13,177	2,564	47,517	63,258	-	-	-	-	-	63,258
Fundraising	-	-	-	-	-	-	-	-	53,048	53,048
Maintenance	2,390	78	15,551	18,019	21,537	12,063	1,472	35,072	-	53,091
Insurance	16,506	2,312	360	19,178	11,715	18,859	3,613	34,187	-	53,365
Interest	-	-	-	-	38,837	-	-	38,837	-	38,837
Licenses and hiring	18,971	592	737	20,300	284	2,264	-	2,548	-	22,848
Purchase of services	8,200	20,155	-	28,355	-	75	2,484	2,559	-	30,914
Miscellaneous	27,290	42,335	-	69,625	3,161	18,607	1,781	23,549	-	93,174
Total expenses	4,014,022	4,340,399	684,896	9,039,317	500,368	871,549	26,145	1,398,062	53,048	10,490,427
Allocation of facility costs	273,535	121,507	3,055	398,097	(502,605)	104,508	-	(398,097)	-	-
Allocation of administration costs	556,735	282,823	64,380	903,938	2,237	(906,175)	-	(903,938)	-	-
Total expenses after allocation	\$ 4,844,292	\$ 4,744,729	\$ 752,331	\$ 10,341,352	\$ -	\$ 69,882	\$ 26,145	\$ 96,027	\$ 53,048	\$ 10,490,427

See accompanying notes to financial statements.

WESLEY HOUSE FAMILY SERVICES, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 229,884	\$ (54,368)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Gain on disposal of assets	-	(944)
Unrealized gain on investments	(5,441)	(6,650)
Unrealized gain on derivative	(26,710)	(22,035)
Depreciation and amortization	210,518	209,144
Decrease (increase) in assets:		
Grants receivable	(123,179)	126,115
Contributions receivable	113,563	114,667
Pledges receivable restricted for the purchase of fixed assets	-	10,550
Other accounts receivable	16,357	(25,977)
Prepaid expenses and other assets	(1,620)	(17,351)
Increase (decrease) in liabilities:		
Accounts payable	(108,719)	88,171
Accrued expenses	(119,124)	8,374
Deferred revenue	100,549	(3,024)
Net cash provided by operating activities	286,078	426,672
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities on certificates of deposit	33,954	522,970
Purchase of investments	(103,290)	(135,000)
Purchase of fixed assets	(20,392)	(32,867)
Net cash provided by (used in) investing activities	(89,728)	355,103
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(34,421)	(32,123)
Net cash used in financing activities	(34,421)	(32,123)

WESLEY HOUSE FAMILY SERVICES, INC.
STATEMENTS OF CASH FLOWS (continued)
Years Ended June 30, 2011 and 2010

	2011	2010
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ 161,929	\$ 749,652
CASH AND CASH EQUIVALENTS, beginning of year	1,781,945	1,032,293
CASH AND CASH EQUIVALENTS, end of year	\$ 1,943,874	\$ 1,781,945
 RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 1,786,068	\$ 1,513,826
Cash - restricted	157,806	268,119
CASH AND CASH EQUIVALENTS, end of year	\$ 1,943,874	\$ 1,781,945
 SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	\$ 36,586	\$ 38,837

See accompanying notes to financial statements.

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

Wesley House Family Services, Inc. (Wesley House) is a nonprofit corporation organized under the laws of the State of Florida on January 11, 1975. Wesley House provides child care and family support services within Monroe County, Florida. Wesley House is accredited under the Counsel on Accreditation.

Wesley House offers three primary community support services for the families and children of Monroe County: child care and provider services to assist families and children with child care and work with child care providers to provide quality educational programs, one directly operated child care site in Key West, and community based care programs working with community partners to assist children and families in the dependency care system. All of the services are provided throughout Monroe County, Florida through locations in Key West, Marathon and Tavernier.

Basis of Accounting

The financial statements of Wesley House have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Wesley House has adopted Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), 958-210, Not-for-Profit Entities – presentation of financial statements. Under FASB ASC 958-210, Wesley House is required to report 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.

Revenue Recognition

Wesley House recognizes grants, contracts and contributions of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Wesley House recognizes revenues from exchange transactions when the service is rendered. Receivables are recognized for outstanding invoices.

Wesley House considers its receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Wesley House received a substantial portion of its revenues from various state and federal grants. Government funding may be significantly impacted by budget allocations and, consequently, changes in that funding may affect Wesley House's operations. For the periods ended June 30, 2011 and 2010, the following entities provided more than ten percent of total revenues:

	<u>2011</u>	<u>2010</u>
Our Kids of Miami-Dade/Monroe, Inc.	42%	41%
Early Learning Coalition of Miami-Dade/Monroe, Inc.	45%	44%

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are cash on hand as well as demand deposits and investments with original maturities of three months or less.

The carrying amount of Wesley House's cash and cash equivalents as of June 30, 2011 and 2010, respectively, are \$1,943,874 and \$1,781,945 and the bank balances are \$1,954,755 and \$1,805,477. Balances up to \$2,500,000 are collateralized, covered by the Federal Depository Insurance Corporation, or covered by the National Credit Union Association.

Wesley House is required by Our Kids of Miami-Dade/Monroe Inc. (Our Kids) to fund an irrevocable standby letter of credit up to \$100,000 and is named as the beneficiary in the event that continuity of care as defined in the contract between Wesley House and Our Kids is disrupted or at imminent risk of disruption due specified events. The letter of credit is secured by a certificate of deposit at the same financial institution.

Cash – Restricted

Wesley House restricts cash to include a balance sufficient to cover the amounts held in temporarily restricted net assets, less the contribution receivable.

Certificates of Deposit

Certificates of deposit are stated at cost. The certificates bear interest ranging from 1.07% to 1.84%.

Investments Held by an Outside Foundation

Wesley House has an agreement with an outside foundation where the foundation has agreed to hold and manage certain investments subject to the terms of that agreement. The investment is recorded at market value, which was \$136,597 and \$27,886 at June 30, 2011 and 2010, respectively. The foundation charges an annual one percent management fee. The agreement may be terminated by either party giving 30 days written notice, whereby the foundation shall return the balance of the funds to Wesley House.

Investments

Investments are recorded at fair market value, and realized and unrealized gains and losses are reflected in the statement of activities. Investment gains and losses on unrestricted investments are recorded as unrestricted investment gains and losses. Investment gains and losses on temporarily restricted investments are recorded as temporarily restricted investment gains and losses.

Fixed Assets

Purchased fixed assets are recorded at cost. Donated assets are recorded at fair market value at the time of donation. Wesley House has a policy for capitalizing expenditures for fixed assets with costs greater than \$1,000 and an expected useful life of at least one year. Major renewals and betterments are capitalized while minor renewals and betterments are expensed as incurred. When assets are purchased with certain grant funds, they are subject to certain use restrictions and disposition procedures. Depreciation expenses are provided using the straight-line method over the estimated useful lives of the various classes of assets.

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services, Goods and Facilities

A substantial number of volunteers have donated time to Wesley House's program services and fund-raising campaigns during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Donated professional services (which include accounting and legal services) are reflected in the statement of activities at their fair market value. Materials, facilities use and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt. The organization benefited from donated services which were valued at \$65,256 and \$36,849 for the years ended June 30, 2011 and 2010. These amounts have been reported as donated services on the statement of activities.

Income Taxes

Wesley House is a not-for-profit organization that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes has been made in the accompanying financial statements. The Organization recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the year ended June 30, 2010, the Organization did not incur interest and penalties related to tax positions. The Organization's 2008-2010 tax years are open for examination by federal and state taxing authorities. The Organization files as a tax exempt organization, should that status be challenged in the future, all years since inception would be subject to review by the IRS.

Concentrations of Credit and Market Risk

Financial instruments that potentially expose Wesley House to concentrations of credit and market risk consist primarily of investments, uncollateralized grants receivable, other receivables, and long-term debt. Grants receivable are primarily due from The State of Florida and other nonprofit agencies and are deemed fully collectible.

Derivative Instruments

Financial Accounting Standards Board topic, Accounting for Derivative Instruments and Hedging Activities, requires corporations to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e. gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as a part of a hedging relationship and further, on the type of hedging relationship. In an attempt to reduce its exposure to interest rate variability, Wesley House has entered into an interest rate swap agreement related to its mortgage. This derivative is designated and qualifies as a cash flow hedge; therefore, the effective portion of the gain or loss on the derivative instrument is reported as a gain or loss in the statement of activities.

Financing Costs

Unamortized financing costs are amortized using the straight-line method over the life of the debt.

Net Assets

Wesley House's net assets are classified into three categories: (1) unrestricted net assets, which include no donor-imposed restrictions, (2) temporarily restricted net assets, which include donor-imposed restrictions that will expire in the future and (3) permanently restricted net assets, which include donor-imposed restrictions that the assets be maintained permanently.

The unrestricted net assets consist of operating funds available for any purpose authorized by the Board of Directors.

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets (continued)

Temporarily restricted net assets consist of funds arising from gifts in which the donor has stipulated, as a condition of the gift, restrictions on how or when the gift may be spent.

Permanently restricted net assets consist of funds arising from a gift or bequest in which the donor has stipulated, as a condition of the gift, that the principal be maintained in perpetuity and only the investment income from investment of the funds be expended. Certain donor endowments also specify that a portion of the earnings from the investment be reinvested as principal, or that all income earned over a period of time be reinvested. Amounts are also transferred for specific uses from time to time, as requested by the donor.

Net Assets Released from Restrictions

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs that are directly related to Wesley House's specific purpose have been recorded as a direct expense and included as program services.

NOTE B – INVESTMENT SECURITIES

Investment securities are carried at fair value and consist of the following as of June 30, 2011 and 2010:

	2011		2010	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Community Foundation of the Florida Keys	\$ 136,597	\$ 132,041	\$ 27,866	\$ 27,866
Total	<u>\$ 136,597</u>	<u>\$ 132,041</u>	<u>\$ 27,866</u>	<u>\$ 27,866</u>

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE B – INVESTMENT SECURITIES (continued)

A summary of the return on investments is as follows as of June 30, 2011 and 2010:

	2011	2010
Net unrealized gain (loss)	\$ 5,441	\$ -
Investment fees	(885)	-
Change in investments	\$ 4,556	\$ -

The various investments in stock, securities, mutual funds and other investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of Wesley House.

NOTE C – FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification Topic on Fair Value Measurements defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Organization’s principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The topic establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE C – FAIR VALUE MEASUREMENTS (continued)

Items carried at fair value on a recurring basis consist of financial instruments which are valued based on quoted prices in active or brokered markets for identical assets and liabilities. Items carried at fair value on a non-recurring basis generally consist of assets held for sale. Wesley House also uses fair value concepts to test various long-lived assets for impairment.

Assets and liabilities measured at fair value on a recurring basis are summarized below as of June 30, 2011:

	<u>Fair Value</u>	<u>Quoted active markets identified assets (Level One)</u>	<u>Prices in significant other observable inputs (Level Two)</u>	<u>Significant unobservable inputs (Level Three)</u>
Assets				
Investments				
Securities	\$ 136,597	\$ -	\$ 136,597	\$ -
Liabilities				
Interest rate swap agreement	<u>2,283</u>	<u>-</u>	<u>-</u>	<u>2,283</u>
Total	<u>\$ 138,880</u>	<u>\$ -</u>	<u>\$ 136,597</u>	<u>\$ 2,283</u>

Assets and liabilities measured at fair value on a recurring basis are summarized below as of June 30, 2010:

	<u>Fair Value</u>	<u>Quoted active markets identified assets (Level One)</u>	<u>Prices in significant other observable inputs (Level Two)</u>	<u>Significant unobservable inputs (Level Three)</u>
Assets				
Investments				
Securities	\$ 27,866	\$ -	\$ 27,866	\$ -
Liabilities				
Interest rate swap agreement	<u>28,993</u>	<u>-</u>	<u>-</u>	<u>28,993</u>
Total	<u>\$ 56,859</u>	<u>\$ -</u>	<u>\$ 27,866</u>	<u>\$ 28,993</u>

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE C – FAIR VALUE MEASUREMENTS (continued)

Liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level Three):

	2011	2010
Beginning balance at July 1	\$ 28,993	\$ 51,028
Unrealized gain	(26,710)	(22,035)
Ending balance at June 30	\$ 2,283	\$ 28,993

The unrealized gain recorded in the accompanying statements of activities unrestricted revenue for the year ended June 30, 2011 and 2010 relate to the Level 3 liability that are still held at June 30, 2011 and 2010.

NOTE D – CONTRIBUTIONS AND PLEDGES RECEIVABLE

Below market leases are considered unconditional promises to give. Included in “contributions receivable” are below market leases for the following day care and family service sites for:

	Inex Martin	Spalding Court	2011 Total
Due in less than one year	\$ 124,400	\$ 12,438	\$ 136,838
Due in one to five years	536,059	53,598	589,657
Due in more than five years	603,339	763,250	1,366,589
	1,263,798	829,286	2,093,084
Unamortized discount	(378,175)	(508,517)	(886,692)
Total contributions receivable, net	\$ 885,623	\$ 320,769	\$ 1,206,392

Fair values of the leases are assumed to increase three percent each year and the discount rate is four percent.

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE E – LONG-TERM DEBT

Mortgage payable to bank, collateralized by real estate and \$65,000 in cash, payable in monthly principal installments of approximately \$2,600 plus interest at 6.93% based on a scheduled principal repayment other than the actual amount due, matures July 2011. Substantial prepayment penalties apply.

On July 13, 2011, Wesley House refinanced their long-term debt which came due. The newly issued mortgage totaling \$500,000 is payable in consecutive monthly installments of principal and interest commencing on August 13, 2011 and continued on the same day of each calendar period thereafter, in 179 equal payments, with one final payment of all remaining principal and accrued interest due on July 12, 2026. Interest accrues at a fixed rate of 6.69% per annum.

The debt principal payments for the refinanced debt are as follows at June 30, 2011:

2012		\$	18,644
2013			21,684
2014			23,180
2015			24,780
2016			26,489
Thereafter			385,223
		\$	500,000

Wesley House is in compliance with loan covenants associated with the above notes payable as of June 30, 2011.

NOTE F – PENSION PLAN

Wesley House participates in the Pension Plan through the General Board of Pensions of United Methodist Church (the Plan). The Plan covers substantially all employees. Employees become eligible for active plan participation after completing one year of full-time service. Contributions to the Plan by Wesley House are calculated at 6 percent of an eligible employee’s gross pay. Wesley House employees are required to make contributions of 3 percent of their gross pay. Upon becoming a participant in the Plan, contributions made by the employees and Wesley House become fully vested. For the years ended June 30, 2011 and 2010, respectively, Wesley House’s pension contribution was \$117,519 and \$106,301.

NOTE G – LEASES

A facility for the Healthy Families Program is rented at a cost of \$1 per year until March 2049. The estimated fair value of the property is \$12,076 and \$11,724, for the years ended June 30, 2011 and 2010 respectively. The Inez Martin day care facility is provided to Wesley House at no cost. The estimated fair rental value of the facility is \$120,777 and \$117,259 for the years ended June 30, 2011 and 2010. The Wesley House lease expires December 31, 2020.

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE G – LEASES – (continued)

Future lease payments required under operating leases that have initial or remaining non-cancelable lease terms due as of June 30, 2012 are \$25,667.

For the years ended June 30, 2011 and 2010, respectively, lease expense under all operating leases was \$364,985 and \$343,770.

NOTE H – PUBLIC SUPPORT REQUIRING LOCAL RESOURCE MATCH

During 2011 Wesley House received various grants. The following contracts required a specific local match:

		<u>Match Required</u>	<u>Match Provided</u>
Early Learning Coalition of Miami-Dade/Monroe	C10-112	\$ 126,156	\$ 126,156
Ounce of Prevention Fund of Florida	HF10-11-18	51,207	96,261
Our Kids of Miami-Dade/Monroe	PSSF	59,654	72,990
		<u>\$ 237,017</u>	<u>\$ 295,407</u>

NOTE I – INTEREST RATE SWAP AGREEMENT

In July 2000, Wesley House entered into an interest rate swap agreement related to their mortgage. This swap is utilized to manage interest rate exposure. The differential to be paid or received on the swap agreement is accrued as interest rates change and is recognized over the life of the agreement. The swap agreement expires July 2011 and has a rate of 6.93%. The outstanding notional amount is \$519,274. Included in revenue for the years ended June 30, 2011 and 2010, are unrealized gains of \$26,710 and of \$22,035, respectively.

NOTE J – CONTINGENCIES

Wesley House receives a substantial amount of its support from federal and state governments in the form of grants. A significant reduction in the level of this support, if this were to occur, may have a significant effect on Wesley House's programs and activities.

Government grants require the fulfillment of certain conditions as set forth in the grant agreements. Failure to fulfill the conditions could result in the return of the funds to grantors. Based upon prior experience, management believes that disallowance's, if any, would be immaterial.

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE K – ENDOWMENT COMPOSITION

Wesley House’s permanently restricted endowment consists of funds established by the Marion Stevens Will. The fund was established in 2001 requiring the principal of the endowment to remain intact. The income from the endowment principal is used to fund scholarships for children whose families barely exceed the low income guidelines.

Endowment funds by category from inception to date and changes in endowment net assets for the year ended June 30, 2011 consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at beginning of year	\$ -	\$ 1,219	\$ 129,936	\$ 131,155
Investment return:				
Interest income	-	2,080	-	2,080
Unrealized gain on investments	-	5,441	-	5,441
Contributions	-	25	-	25
Investment fees	-	(885)	-	(885)
	<u>\$ -</u>	<u>\$ 7,880</u>	<u>\$ 129,936</u>	<u>\$ 137,816</u>

Endowment funds by category from inception to date and changes in endowment net assets for the year ended June 30, 2010 consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at beginning of year	\$ -	\$ -	\$ 129,936	\$ 129,936
Investment return:				
Interest income	-	1,219	-	1,219
	<u>\$ -</u>	<u>\$ 1,219</u>	<u>\$ 129,936</u>	<u>\$ 131,155</u>

Interpretation of Uniform Prudent Management of Institutional Funds

During 2011, the State of Florida has enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) enhanced disclosure required by Accounting Standard Codification Endowments of Not-for-Profit Organizations: Net Assets Classification of Funds Subject to an Enacted Version of the UPMIFA, and Enhanced Disclosure for All Endowment Funds which becomes effective July 1, 2012. The Board of Directors of Wesley House is requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds per the donor stipulations.

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE K – ENDOWMENT COMPOSITION (continued)

As a result of this interpretation, Wesley House classifies the endowment as permanently restricted net assets. Wesley House considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the organization and the donor restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the organization
- 7) The investment policies of the organization.

Return Objectives and Risk Parameters

Wesley House 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 maintain the purchasing power of the endowment assets.

Strategies Employed for Achieving Objectives

The purpose of the Endowment Fund is to facilitate the board’s desire to develop a source of revenue for Wesley House. In so doing, the Endowment Fund will provide a secure, long-term source of funds to: (a) fund special grants; (b) ensure long-term growth; (c) enhance our ability to meet changing needs in both the short and long-term; and, (d) support the administrative expenses of Wesley House as deemed appropriate.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Board of Directors has allowed use of the net income from donor restricted funds since 2001 to fund scholarships for children whose families are in need of support.

Funds with Deficiencies

From time to time, the fair value of assets associated with the donor restricted endowment funds may fall below the level that Wesley House’s policies requires to retain as a fund of perpetual duration. Deficiencies of this nature would be reported in unrestricted net assets. Wesley House does not have any deficiencies as of June 30, 2011 and 2010.

Donor restricted endowment funds are included in the statement of financial position under the following asset categories:

	2011	2010
Cash and cash equivalents	\$ 1,219	\$ 131,155
Investments	136,597	-
	\$ 137,816	\$ 131,155

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE L – BOARD DESIGNATED UNRESTRICTED NET ASSETS

Unrestricted net assets have been designated for specific purposes by the Board. These purposes are as follows at June 30:

	2011	2010
The Lester Johnson Estate	\$ 428,524	\$ 431,822
Other investments	-	377,886
	\$ 428,524	\$ 809,708

NOTE M – TEMPORARILY RESTRICTED NET ASSETS

	2011	2010
Present value of below market leases on daycare sites	\$ 1,206,392	\$ 1,319,956
Debt service fund	83,021	82,821
Foster children fund	40,724	40,765
Ocean reef foundation	9,912	13,740
Children's gift fund	12,822	6,697
Provider services fund	2,257	2,608
Taylor fund	-	2,446
Food for families	2,574	1,794
Marion Stevens scholarships	7,880	1,219
Key's children foundation	1,000	1,000
Parents as first teachers fund	193	1,000
Walker fund	405	519
Adoptive children fund	596	380
	\$ 1,367,776	\$ 1,474,945

NOTE N – RELATED PARTY TRANSACTIONS

Wesley House operates one day care facility which receives day care fees from the Early Learning Coalition of Miami-Dade/Monroe, Inc. in the amount of \$365,351 and \$365,972 for the year ended June 30, 2011 and 2010 respectively.

One of the board members was employed at a financial institution where Wesley House had \$1,232,610 cash and cash equivalents and \$101,336 certificates of deposit held at June 30, 2011. Wesley House had \$629,663 in cash and cash equivalents and certificates of deposit held at June 30, 2010.

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE O – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to June 30, 2011 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the years ended June 30, 2011 and 2010. Management has performed their analysis through November 9, 2011 and noted Wesley House obtained a new line of credit in the maximum principal amount not to exceed \$250,000 at any one time outstanding for the purpose of obtaining an operating line to fund short term needs. Interest shall accrue from the date hereof on the unpaid principal balance outstanding from time to time at the variable rate of the Bank's Prime Rate plus 0.125% per annum to be adjusted daily as the Bank's Prime Rate changes. There currently are no borrowings.

SUPPLEMENTAL INFORMATION

**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
Wesley House Family Services, Inc.
Key West, Florida

We have audited the financial statements of Wesley House Family Services, Inc. (Wesley House) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 9, 2011. 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 Wesley House'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 Wesley House's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Wesley House's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Wesley House'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 management, the board of directors, others within the entity, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

LarsonAllen LLP
LarsonAllen LLP

November 9, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND STATE PROJECT
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133
AND CHAPTER 10.650 RULES OF THE AUDITOR GENERAL**

Board of Directors
Wesley House Family Services, Inc.
Key West, Florida

Compliance

We have audited Wesley House Family Services, Inc's (Wesley House) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that could have a direct and material effect on each of Wesley House's major federal programs and state projects for the year ended June 30, 2011. Wesley House's major federal programs and state projects are identified in the summary of auditor's 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 and state projects is the responsibility of Wesley House's management. Our responsibility is to express an opinion on Wesley House'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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.650, Rules of the Auditor General 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 and state project occurred. An audit includes examining, on a test basis, evidence about Wesley House's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Wesley House's compliance with those requirements.

In our opinion, Wesley House complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs and state projects for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Wesley House is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered Wesley House's internal control over compliance with the requirements that could have a direct and material effect on its major federal programs and state projects to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, 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 Wesley House's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not be designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, board of directors, others within the entity, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

LarsonAllen LLP
LarsonAllen LLP

November 9, 2011

WESLEY HOUSE FAMILY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE PROJECTS
Year Ended June 30, 2011

<u>Agency/Pass-Through Entity</u> <u>Program Title</u>	<u>CFDA or</u> <u>CSFA</u> <u>Number</u>	<u>Contract or</u> <u>Grant Number</u>	<u>Expenditures</u>
FEDERAL AWARDS - PASSED THROUGH			
Department of Agriculture			
Passed through the State of Florida			
Department of Health:			
Child Care Food Program	10.558	S-627	\$ 12,609
Child Care Food Program	10.558	I3397	66,035
Total Department of Agriculture			<u>78,644</u>
U.S. Department of Health and Human Services			
Passed Through the Agency for Workforce Innovation:			
Passed through the Early Learning			
Coalition of Miami-Dade/Monroe, Inc.			
Temporary Assistance to			
Needy Families (TANF)	93.558	C10-112	1,241,635
Child Care Development Fund (CCDF)	93.575	C10-112	1,206,158
CCDF ARRA	93.713	C10-112	39,570
CCDF Mandatory Matching	93.596	C10-112	1,064,257
Social Services Block Grant	93.687	C10-112	35,475
Total Passed Through Early Learning			<u>3,587,095</u>
Coalition Miami-Dade/Monroe, Inc.			
Passed through Our Kids of Miami-Dade/ Monroe, Inc. for Community Based Care:			
Temporary Assistance for Needy Families	93.558		473,591
Child Welfare Services	93.645		108,404
Promoting Safe and Stable Families	93.556		44,873
Foster Care - Title IV-E	93.658		999,071
Foster Care - Title IV-E - American			
Recovery and Reinvestment Act	93.658		113,426
Adoption Assistance	93.659		352,025
Social Services Block Grant	93.667		158,339
Administration for Children, Youth			
and Families - Child	93.669		51,994
Independent Living	93.674		30,108
Promoting Safe and Stable Families - IV - B	93.556		12,373
Medical Assistance Program	93.778		2,436
Block Grants for Community			
Mental Health Services	93.958		4,124
Total Passed Through Our Kids of Miami/Dade Monroe, Inc.			<u>2,350,764</u>

WESLEY HOUSE FAMILY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE PROJECTS (continued)
Year Ended June 30, 2011

<u>Agency/Pass-Through Entity</u> <u>Program Title</u>	<u>CFDA or</u> <u>CSFA</u> <u>Number</u>	<u>Contract or</u> <u>Grant Number</u>	<u>Expenditures</u>
Passed through the Ounce of Prevention Fund of Florida:			
Healthy Families - TANF	93.558	HF10-11-18	158,346
Healthy Families - CBCAP	93.590	HF10-11-18	48,480
Total Passed through the Ounce of Prevention Fund of Florida			<u>206,826</u>
Total Health and Human Services			<u>6,144,685</u>
Total Federal Awards			<u>\$ 6,223,329</u>
STATE PROJECTS - PASSED THROUGH			
State of Florida Department of Children and Families			
Passed through Our Kids of Miami-Dade/ Monroe, Inc.:			
Community Based Care Supports	60.094		\$ 2,145,455
Total Passed through Our Kids of Miami-Dade/Monroe, Inc.			<u>2,145,455</u>
State of Florida Agency for Workforce Innovation			
Passed through the Early Learning Coalition of Miami-Dade/Monroe, Inc.			
Voluntary Pre-Kindergarten Education Program	75.007	C10-112	1,133,780
Total Passed through Early Learning Coalition Miami-Dade/Monroe, Inc.			<u>1,133,780</u>
Total State Projects			<u>\$ 3,279,235</u>
Total Federal Awards and State Projects			<u><u>\$ 9,502,564</u></u>

WESLEY HOUSE FAMILY SERVICES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE PROJECTS
Year Ended June 30, 2011

NOTE A – GENERAL

The accompanying Schedule of Expenditures of Federal Awards and State Projects includes the Federal awards and State projects activity of Wesley House Family Services, Inc. (Wesley House) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and *Rules of the Auditor General – State Single Audits – Nonprofit and For-Profit Organizations*, issued by the Auditor General of the State of Florida. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – MAJOR PROGRAM DETERMINATION

The School Readiness and Community Based Care programs both have funding sources in which indicate that the source of funds includes multiple federal and state awards. In accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, each major program cannot be “unclustered” and, therefore, has been tested as a cluster. See the Summary of Auditor’s Results on page 32 for a total listing of each program by CFDA and CFSA number.

NOTE C - SUBRECIPIENTS

Wesley House does not provide awards to subrecipients.

WESLEY HOUSE FAMILY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS AND STATE PROJECTS
Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiency identified not considered to be a material weakness	No
Noncompliance material to the financial statements noted	No

Federal Awards and State Projects

Internal control over major programs:	
Material weakness identified	No
Significant deficiency identified not considered to be a material weakness	No
Type of auditor's report issued on compliance for major awards and projects	Unqualified

Identification of Major Federal Awards and State Projects:

<u>Federal Awards</u>	<u>CFDA Number</u>
School Readiness:	
TANF	93.558
CCFD	93.575
CCFD ARRA	93.713
CCDF Mandatory Matching	93.596
Social Services Block Grant	93.687
Community Based Care:	
Temporary Assistance for Needy Families	93.558
Child Welfare Services	93.645
Promoting Safe and Stable Families	93.556
Foster Care – Title IV - E	93.658
Foster Care – Title IV – E ARRA	93.658
Adoption Assistance	93.659
Social Services Block Grant	93.667
Administration for Children, Youth and Families – Child	93.669
Independent Living	93.674
Promoting Safe and Stable Families - IV – B	93.556
Medical Assistance Program	93.778
Block Grants for Community Mental Health Services	93.958

WESLEY HOUSE FAMILY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS AND STATE PROJECTS (continued)
Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS (continued)

<u>State Projects</u>	<u>CSFA Number</u>	
School Readiness	75.007	
Community Based Care	60.094	
Dollar threshold used to distinguish between Type A and Type B programs for Both Federal awards and State projects		\$300,000
Auditee qualified as low-risk		No

SECTION II - FINANCIAL STATEMENT AUDIT

There were no current year findings.

SECTION III – FEDERAL AWARDS AND STATE PROJECTS FINDINGS AND QUESTIONED COSTS

There were no current year findings.

WESLEY HOUSE FAMILY SERVICES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

Prior audit findings

10-01 Lack of approval for journal entries.

Finding: During our testing of 40 journal entries we noted that 4 journal entries did not indicate evidence of review and approval by a member of management.

Recommendation: We recommend the adoption of a policy whereby all journal entries will be approved by an appropriate member of management who is not the preparer of the journal entry. All entries should be initialed by the preparer and by the individual approving the journal entry. We recommend Wesley House consider evaluating and removing full user access rights for staff in order to prevent management override of controls.

Current Status: During our testing in the current year, we did not note any journal entries that lacked evidence of review and approval by a member of management.

10-02 Cost allocation plan.

Finding: At June 30, 2010 we noted that allocations of administrative and facility indirect costs to the various programs exceeded actual expenses.

Recommendation: We understand that the method of allocating administrative and facility costs was changed during the year to help simplify the allocation process and to decrease fluctuations in departmental budgets. Our recommendation is that management should periodically adjust allocations to reflect actual costs incurred.

Current Status: Wesley House revised its cost allocation plan to include a clause where all fund allocations based on budgeted amounts will be reconciled to actual expenses at year end. During our testing in the current year, we noted the internal control structure is operating as designed and allocations were proper.