



CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014



Leaf & Cole, LLP
Certified Public Accountants

**WALDEN FAMILY SERVICES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Walden Family Services

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Walden Family Services, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Walden Family Services as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 19 to 22 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2016, on our consideration of Walden Family Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Walden Family Services' internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California
May 16, 2016

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014**

ASSETS

	<u>2015</u>	<u>2014</u>
<u>Current Assets:</u> (Notes 1, 2 and 4)		
Cash and cash equivalents	\$ 690,158	\$ 320,322
Accounts receivable, net	1,547,094	1,140,677
Contributions receivable	351,080	28,750
Prepaid expenses and other assets	190,516	159,820
Total Current Assets	<u>2,778,848</u>	<u>1,649,569</u>
 <u>Noncurrent Assets:</u> (Notes 1, 3 and 4)		
Property and equipment, net	64,003	33,196
Deposits	125,314	59,004
Total Noncurrent Assets	<u>189,317</u>	<u>92,200</u>
 TOTAL ASSETS	 \$ <u>2,968,165</u>	 \$ <u>1,741,769</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Note 1)		
Overpayments	\$ 108,825	\$ 54,092
Accounts payable - Foster parents	165,478	179,903
Accounts payable and accrued expenses	381,692	126,039
Accrued compensated absences	137,606	126,245
Total Current Liabilities	<u>793,601</u>	<u>486,279</u>
 Total Liabilities	 <u>793,601</u>	 <u>486,279</u>
 <u>Commitments</u> (Note 4, 6 and 7)		
 <u>Net Assets:</u> (Notes 1 and 5)		
Unrestricted	1,659,417	1,007,441
Temporarily restricted	515,147	248,049
Total Net Assets	<u>2,174,564</u>	<u>1,255,490</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u>2,968,165</u>	 \$ <u>1,741,769</u>

The accompanying notes are an integral part of the consolidated financial statements.

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenue and Support:</u>			
Adoption revenue	\$ 595,000	\$ -	\$ 595,000
Aftercare revenue	188,855	-	188,855
Cal learn revenue	327,180	-	327,180
Foster care placements	4,456,369	-	4,456,369
Grants and contributions	381,868	751,652	1,133,520
Nuturing parenting program revenue	326,104	-	326,104
Other income	45,870	-	45,870
Transitional housing program revenue	3,073,897	-	3,073,897
Visitation revenue	765,914	-	765,914
Net assets released from restrictions	484,554	(484,554)	-
Total Revenue and Support	<u>10,645,611</u>	<u>267,098</u>	<u>10,912,709</u>
<u>Expenses:</u>			
Program Services	<u>8,859,447</u>	<u>-</u>	<u>8,859,447</u>
Supporting Services:			
General and administrative	683,298	-	683,298
Fundraising	450,890	-	450,890
Total Supporting Services	<u>1,134,188</u>	<u>-</u>	<u>1,134,188</u>
Total Expenses	<u>9,993,635</u>	<u>-</u>	<u>9,993,635</u>
Change in Net Assets	651,976	267,098	919,074
Net Assets at Beginning of Year	<u>1,007,441</u>	<u>248,049</u>	<u>1,255,490</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 1,659,417</u></u>	<u><u>\$ 515,147</u></u>	<u><u>\$ 2,174,564</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Unrestricted	Temporarily Restricted	Total
<u>Revenue and Support:</u>			
Adoption revenue	\$ 400,000	\$ -	\$ 400,000
Aftercare revenue	199,816	-	199,816
Cal learn revenue	433,124	-	433,124
Foster care placements	4,949,646	-	4,949,646
Grants and contributions	264,083	394,414	658,497
Nuturing parenting program revenue	329,551	-	329,551
Other income	47,130	-	47,130
Transitional housing program revenue	1,218,610	-	1,218,610
Visitation revenue	773,722	-	773,722
Net assets released from restrictions	501,429	(501,429)	-
Total Revenue and Support	9,117,111	(107,015)	9,010,096
<u>Expenses:</u>			
Program Services	8,268,281	-	8,268,281
Supporting Services:			
General and administrative	615,459	-	615,459
Fundraising	401,591	-	401,591
Total Supporting Services	1,017,050	-	1,017,050
Total Expenses	9,285,331	-	9,285,331
Change in Net Assets	(168,220)	(107,015)	(275,235)
Net Assets at Beginning of Year	1,175,661	355,064	1,530,725
NET ASSETS AT END OF YEAR	\$ 1,007,441	\$ 248,049	\$ 1,255,490

The accompanying notes are an integral part of the consolidated financial statements.

WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Advertising and marketing	\$ 11,332	\$ 1,752	\$ 11,716	\$ 24,800
Bad debt	-	35,528	1,500	37,028
Bank and payroll charges	67	2,322	4,847	7,236
Behavior and nurse consultants	94,110	-	-	94,110
Child activities and special events	26,066	-	-	26,066
Conferences, meetings and training	26,590	6,347	3,016	35,953
Contract labor	34,286	9,989	68,406	112,681
Depreciation	9,803	12,862	1,362	24,027
Emancipated youth	1,845,639	-	-	1,845,639
Equipment and building maintenance and supplies	2,499	1,043	525	4,067
Equipment rents and leases	30,786	3,598	797	35,181
Event expense	-	-	39,697	39,697
Foster parent expense- Other	64,122	-	-	64,122
Foster parent reimbursements	2,047,473	-	-	2,047,473
Insurance	101,366	6,528	5,318	113,212
Memberships, licenses and fees	58,705	10,475	2,148	71,328
Mileage reimbursement	148,453	3,445	838	152,736
Office and computer maintenance and supplies	40,104	37,196	14,664	91,964
Office rents and leases	310,687	33,012	15,311	359,010
Other	35,228	4,343	2,631	42,202
Payroll taxes and employee benefits	701,319	119,355	52,146	872,820
Postage and printing	18,186	2,364	1,667	22,217
Professional fees	60	27,500	-	27,560
Regional center respite care	32,941	-	-	32,941
Salaries	3,176,143	360,292	223,383	3,759,818
Telecommunications	43,482	5,347	918	49,747
Total Expenses	<u>\$ 8,859,447</u>	<u>\$ 683,298</u>	<u>\$ 450,890</u>	<u>\$ 9,993,635</u>

The accompanying notes are an integral part of the consolidated financial statements.

WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Advertising and marketing	\$ 22,497	\$ 2,040	\$ 10,092	\$ 34,629
Bad debt	-	17,423	3,352	20,775
Bank and payroll charges	64	22,208	1,933	24,205
Behavior and nurse consultants	91,933	-	-	91,933
Child activities and special events	28,050	-	-	28,050
Conferences, meetings and training	28,810	5,906	3,254	37,970
Contract labor	64,210	9,743	11,430	85,383
Depreciation	14,177	10,258	1,142	25,577
Emancipated youth	833,745	-	-	833,745
Equipment and building maintenance and supplies	9,522	1,796	1,314	12,632
Equipment rents and leases	33,688	4,933	-	38,621
Event expense	-	-	48,231	48,231
Foster parent reimbursements	2,271,113	-	-	2,271,113
Foster parent expense- Other	88,418	-	-	88,418
Insurance	90,953	4,214	2,868	98,035
Memberships, licenses and fees	65,912	6,576	3,391	75,879
Mileage reimbursement	191,951	4,516	4,044	200,511
Office and computer maintenance and supplies	75,009	14,452	7,281	96,742
Office rents and leases	308,861	35,473	14,545	358,879
Other	65,907	2,001	3,397	71,305
Payroll taxes and employee benefits	802,353	96,675	58,966	957,994
Postage and printing	24,251	2,726	6,286	33,263
Professional fees	-	29,251	-	29,251
Regional center respite care	42,052	-	-	42,052
Salaries	3,058,153	340,376	219,187	3,617,716
Telecommunications	56,652	4,892	878	62,422
Total Expenses	\$ 8,268,281	\$ 615,459	\$ 401,591	\$ 9,285,331

The accompanying notes are an integral part of the consolidated financial statements.

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 919,074	\$ (275,235)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	24,027	25,577
(Increase) Decrease in:		
Accounts receivable, net	(406,417)	(168,048)
Contributions receivable	(322,330)	68,485
Prepaid expenses and other assets	(30,696)	(88,851)
Increase (Decrease) in:		
Overpayments	54,733	(8,425)
Accounts payable - Foster parents	(14,425)	(25,025)
Accounts payable and accrued expenses	255,653	26,991
Accrued compensated absences	11,361	19,454
Net Cash Provided by (Used in) Operating Activities	<u>490,980</u>	<u>(425,077)</u>
<u>Cash Flows From Investing Activities:</u>		
Purchases of property and equipment	(54,834)	(6,193)
Payments for deposits	(66,310)	(28,121)
Net Cash Used in Investing Activities	<u>(121,144)</u>	<u>(34,314)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	369,836	(459,391)
Cash and Cash Equivalents at Beginning of Year	<u>320,322</u>	<u>779,713</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 690,158</u>	<u>\$ 320,322</u>

The accompanying notes are an integral part of the consolidated financial statements.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - Organization and Significant Accounting Policies:

Organization

The consolidated financial statements will be referred to as “Organization” and include the accounts of the following entities:

Walden Environment

Walden Environment dba Walden Family Services (Walden) was formed in 1976 as a nonprofit organization to provide advocacy, out of home placement and treatment services for children unable to remain in their own homes due to abandonment, abuse or neglect. Walden’s goal is to help stabilize children, youth and families through community-based prevention and intervention services. Walden is a treatment-level foster family and adoption agency which is engaged in the recruitment, certification and training of foster and adoptive parents, and the placement of foster and adoptive children. Walden’s funding comes primarily from federal, state and county welfare programs. Walden provided services to 473 unique foster care clients plus hundreds more children, youth, teens and families through our Visitation Centers and Adoptions, After Care, Advancing Youth Advocates, Cal Learn, First 5 Nurturing Parenting and Independent Futures programs.

Walden Family Services Foundation

Walden Family Services Foundation (Foundation) was incorporated in 2001 to solicit, receive and administer contributions for the benefit of Walden. The Foundation’s support is mainly from contributions received from businesses and individuals in Southern California.

The following is a brief description of the Organization’s programs:

Adoption

Walden Family Services is committed to every child’s need for a permanent home. In order to facilitate strong attachments, Walden provides training and supportive therapy for the family and child throughout the adoption process. Walden also provides post-adoptive services to facilitate each family’s adjustments as the child grows through each developmental stage into early adulthood.

Therapeutic Foster Care

Therapeutic foster care provides an effective alternative to institutionalization and group home care that allows children to grow into healthy adult members of the community. The children in Walden’s care have severe emotional and behavioral challenges as a result of past abuse, and require intensive services to help them heal and remain in a family environment. Many of the children have suffered the trauma of multiple foster families or group home placements before coming to Walden. Walden’s specially trained foster families and support services enable children that otherwise would be in a group home to live with a family.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Organization (Continued)

Foster Care for Children with Special Health Care Needs

Walden's Special Health Care Needs (SHCN) program enables foster children and youth with medical needs to move out of skilled nursing facilities and hospitals into highly skilled and specially trained certified foster families. Families care for children with technology-dependent conditions, such as apnea monitors, nebulizers, oxygen, feeding tubes and other adaptive equipment. The program also serves infants who were drug-exposed, born premature or failing to thrive, as well as children with juvenile diabetes and life threatening medical conditions. Foster parents receive intensive training and support to care for children's special health care needs.

Foster Care for Children with Developmental Disabilities

Walden serves the needs of foster children and teens with intellectual disabilities, cerebral palsy, epilepsy, autism and other similar challenges. The goal of this program is to prevent institutionalization, prepare children and teens for maximum independence through participation in a full range of typical childhood experiences in family and community settings.

Lesbian, Gay, Bisexual, Transgender, and Questioning (LGBTQ) Program

This program provides education and advocacy services for LGBTQ foster youth, and training and support for child welfare providers, foster parents and birth families. The focus of this program is Walden Family Services actively recruits and educates members of the LGBT community about becoming certified foster and adoptive parents.

First 5 Nurturing Parenting Program

Through a contract with First 5 San Bernardino, Walden offers Parenting Classes for teen parents with children 0-5 years old throughout San Bernardino County using the Nurturing Parenting Curriculum. The curriculum uses an evidenced-based philosophy to help parents enhance their parenting skills, and the classes are offered free of charge in locations across the county.

Cal-Learn

Walden provides the Cal-Learn program in San Bernardino County, which provides case management services to assist pregnant and parenting teens receiving CalWORKS to attend and graduate from high school, or its equivalent. Coordinated services help teens obtain an education and access health and social services so that they can become self-sufficient adults and responsible parents.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Organization (Continued)

Foster Care for Pregnant and Parenting Teens

Walden provides support and training to pre- and post-emancipated pregnant and parenting teens through this program. Services include support with the court process, parenting training, budgeting assistance and referrals to community resources. The program offers services and support to both teens that have custody of their children and teens working toward reunification with their dependent children. Additionally, under this program, Walden provides these services to teen parents living with their children in a foster family.

Independent Futures Program

Walden created the pioneering Independent Futures Program in 2001 to assist Walden foster youth exiting foster care. This grant- and philanthropy-funded program serves over 70 pre- and post-emancipated foster youth. Funding made it possible for Walden to address core areas of young adult development: education, employment, financial literacy, health and wellness, housing and connections to adult mentors. Walden phased out at the end of 2015, and many youth who were eligible for this program are now referred to the Transitional Housing Program + Foster Care or Aftercare.

San Bernardino Aftercare

Walden contracts with San Bernardino County to provide aftercare services in the high desert for young adults ages 18-21. Through coaching and training, these young adults develop critical skills to reduce the challenges they may experience when leaving foster care. We support former foster youth in developing life skills; managing their medical, dental and emotional health; accessing educational, employment and housing assistance; and building relationships with mentors and other permanent connections.

Transitional Housing Program + Foster Care (THP+FC)

Walden was one of the first agencies in Southern California to offer THP+FC, a program that provides youth ages 18-21 with safe, affordable housing in a neighborhood of their choosing, comprehensive and individualized case management, life skills training, mentors, opportunities to make community connections, and goal-planning under AB12, the state law that enables youth to stay in foster care until age 21. Walden currently operates the program through our Riverside, Los Angeles and San Diego offices.

Advancing Youth Advocates (AYA)

Advancing Youth Advocates trains former foster youth to present the William Bridges Transitions Framework in order to assist foster youth and former foster youth, current and potential foster families, social work professionals and child welfare providers in understanding the challenges all individuals experience when processing the psychological transitions that occur from the point of change.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Organization (Continued)

San Bernardino County Visitation Center

Through a contract with San Bernardino County, Walden's visitation centers in San Bernardino and Victorville provide a place for birth families to have supervised visits with their children. Walden provides visitation coaches to each birth family in order to give them the tools they need to help decrease their child's length of stay in foster care. Walden provides over 800 hours of visits each month.

Significant Accounting Policies

Consolidated Financial Statements

The consolidated financial statements include the accounts of Walden Environment and Walden Family Services Foundation. All material intercompany transactions have been eliminated in consolidation.

Method of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The consolidated financial statements present information regarding the 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 – Net assets not subject to donor imposed stipulations
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments at December 31, 2015 and 2014.

Allowance for Doubtful Accounts and Overpayments

Accounts receivable consist of program fees due from counties in Southern California that have been earned for foster children. Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. The allowance for doubtful accounts receivable totaled \$17,428 and \$25,252 at December 31, 2015 and 2014, respectively.

Management believes that all contributions receivable were fully collectible; therefore, no allowance for doubtful contributions receivable was recorded at December 31, 2015 and 2014.

Overpayments are fees received from funding sources which Walden has determined are not due at the time of receipt. Overpayments totaled \$108,825 and \$54,092 at December 31, 2015 and 2014, respectively.

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Furniture and equipment	5 years
Leasehold improvements	5 years
Software	3 years

Depreciation totaled \$24,027 and \$25,577 for the years ended December 31, 2015 and 2014, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Compensated Absences

Accumulated unpaid vacation totaling \$137,606 and \$126,245 at December 31, 2015 and 2014, respectively, is accrued when incurred.

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Walden's revenue is generated through performance of services for government entities under various contracts for which they are paid a fixed fee or on a cost-reimbursement basis. Revenue is recognized as the services are provided and/or costs are incurred. Accounts receivable are recorded when revenue earned under a contract exceeds the cash received.

Walden receives foster care payments for its children from the respective counties and Regional Centers. In turn, Walden issues monthly payments to the foster families for its children. This reimbursement to foster parents represents approximately 46% of the total foster care placements for each of the years ended December 31, 2015 and 2014.

Donated Services and Materials

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the consolidated financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended December 31, 2015 and 2014, did not meet the requirements above, therefore no amounts were recognized in the consolidated financial statements.

In-kind contributions of goods used for program services with an estimated fair value of \$19,190 and \$42,369 for the years ended December 31, 2015 and 2014, respectively, are included in grants and contributions in the consolidated statements of activities.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Allocated Expenses

The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by the Organization's management.

Income Taxes

Walden and Foundation are public charities and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Walden and Foundation believe that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the financial statements. Walden and Foundation are not private foundations.

The Organization's Returns of Organization Exempt from Income Tax for the years ended December 31, 2015, 2014, 2013 and 2012 are subject to examination by the Internal Revenue Service and State taxing authorities, generally the three to four years after the returns were filed.

Concentrations

Credit Risk

The Organization maintains its cash and investments in bank deposit accounts and brokerage accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable and Revenue

The primary accounts receivable balance consist of amounts due from eleven government agencies for foster care and THP+FC placements totaling \$1,018,128 which represents 66% of the total accounts receivable balance at December 31, 2015.

The Organization received \$7,530,267 or 69% of its revenue and support from eleven government agencies for foster care placements and THP+FC placements for the year ended December 31, 2015.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 16, 2016, the date the consolidated financial statements were available to be issued and concluded that there were no events or transactions that needed to be disclosed except as disclosed in Note 8.

Note 2 - Contributions Receivable:

Contributions receivable consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Due in less than one year	\$ <u>351,080</u>	\$ <u>28,750</u>

Note 3 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Furniture and equipment	\$ 114,165	\$ 255,766
Leasehold improvements	12,409	26,734
Software	<u>23,340</u>	<u>53,370</u>
Subtotal	149,914	335,870
Less: Accumulated depreciation	<u>(85,911)</u>	<u>(302,674)</u>
Property and Equipment, Net	<u>\$ 64,003</u>	<u>\$ 33,196</u>

Note 4 – Line-of-Credit:

Walden Family Services has a line-of-credit available in the amount of \$500,000 with Chase Bank with interest at the bank's variable rate plus 3.00%. The line-of-credit is secured by substantially all of Walden Family Service's assets and matures in October 2016. There were no outstanding advances under the line-of-credit at December 31, 2015 and 2014.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 5 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2015</u>	<u>2014</u>
Contributions receivable	\$ 275,000	\$ -
Fostering Promising Families	102,410	97,871
Strategic branding	95,483	10,000
Scholarships and job readiness	32,082	38,981
Impossible	10,172	17,122
Independent futures	-	67,546
Transitions	-	16,529
	<u>\$ 515,147</u>	<u>\$ 248,049</u>

Net assets totaling \$484,554 and \$501,429 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended December 31, 2015 and 2014, respectively.

Note 6 - Deferred Compensation Plan:

The Organization sponsors a 401(k) deferred compensation plan (Plan). Employees may elect to contribute up to the maximum amount allowed by federal law, as defined in the Plan. Each employee self-directs the investment of his or her assets. The Organization may make matching contributions to the Plan. The Organization's contributions to the Plan totaled \$-0- and \$17,702 for the years ended December 31, 2015 and 2014, respectively.

Note 7 - Lease Commitments:

The Organization leases its facilities under various operating lease agreements. The leases expire at various dates through July 2023. Office rents and leases totaled \$348,946 and \$340,707 for the years ended December 31, 2015 and 2014, respectively.

The Organization also leases certain office equipment under various operating lease agreements and month-to-month rentals. Equipment rents and leases totaled \$35,181 and \$40,724 for the years ended December 31, 2015 and 2014, respectively.

The following is a schedule of future minimum lease payments under the leases:

<u>Years Ended December 31</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Total</u>
2016	\$ 309,764	\$ 22,879	\$ 332,643
2017	239,325	14,493	253,818
2018	85,236	5,640	90,876
2019	81,340	-	81,340
2020	83,780	-	83,780
Thereafter	228,578	-	228,578
Total	<u>\$ 1,028,023</u>	<u>\$ 43,012</u>	<u>\$ 1,071,035</u>

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 8 – Subsequent Event:

On February 16, 2016, the Organization exercised its right to extend its lease for office space located in San Bernadino, California. The option has extended the lease agreement to June 30, 2017. The rental space leased increased to approximately 5,100 square feet and the monthly rent payment is \$5,770. This commitment is included in the future minimum lease payments in Note 7.

SUPPLEMENTARY INFORMATION

**WALDEN FAMILY SERVICES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2015**

ASSETS

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 472,657	\$ 217,501	\$ -	\$ 690,158
Accounts receivable, net	1,547,094	-	-	1,547,094
Contributions receivable	70,580	280,500	-	351,080
Prepaid expenses and other assets	190,516	-	-	190,516
Intercompany receivables	115,812	-	(115,812)	-
Total Current Assets	<u>2,396,659</u>	<u>498,001</u>	<u>(115,812)</u>	<u>2,778,848</u>
<u>Noncurrent Assets:</u>				
Property and equipment, net	64,003	-	-	64,003
Deposits	125,314	-	-	125,314
Total Noncurrent Assets	<u>189,317</u>	<u>-</u>	<u>-</u>	<u>189,317</u>
TOTAL ASSETS	\$ <u>2,585,976</u>	\$ <u>498,001</u>	\$ <u>(115,812)</u>	\$ <u>2,968,165</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u>				
Overpayments	\$ 108,825	\$ -	\$ -	\$ 108,825
Accounts payable - Foster parents	165,478	-	-	165,478
Accounts payable and accrued expenses	381,692	-	-	381,692
Accrued compensated absences	137,606	-	-	137,606
Intercompany payables	-	115,812	(115,812)	-
Total Current Liabilities	<u>793,601</u>	<u>115,812</u>	<u>(115,812)</u>	<u>793,601</u>
 Total Liabilities	 <u>793,601</u>	 <u>115,812</u>	 <u>(115,812)</u>	 <u>793,601</u>
<u>Net Assets:</u>				
Unrestricted	1,693,380	(33,963)	-	1,659,417
Temporarily restricted	98,995	416,152	-	515,147
Total Net Assets	<u>1,792,375</u>	<u>382,189</u>	<u>-</u>	<u>2,174,564</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>2,585,976</u>	\$ <u>498,001</u>	\$ <u>(115,812)</u>	\$ <u>2,968,165</u>

**WALDEN FAMILY SERVICES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2014**

ASSETS

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 144,364	\$ 175,958	\$ -	\$ 320,322
Accounts receivable, net	1,140,677	-	-	1,140,677
Contributions receivable	23,750	5,000	-	28,750
Prepaid expenses and other assets	159,820	-	-	159,820
Intercompany receivables	108,737	-	(108,737)	-
Total Current Assets	<u>1,577,348</u>	<u>180,958</u>	<u>(108,737)</u>	<u>1,649,569</u>
<u>Noncurrent Assets:</u>				
Property and equipment, net	33,196	-	-	33,196
Deposits	59,004	-	-	59,004
Total Noncurrent Assets	<u>92,200</u>	<u>-</u>	<u>-</u>	<u>92,200</u>
TOTAL ASSETS	<u>\$ 1,669,548</u>	<u>\$ 180,958</u>	<u>\$ (108,737)</u>	<u>\$ 1,741,769</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u>				
Overpayments	\$ 54,092	\$ -	\$ -	\$ 54,092
Accounts payable - Foster parents	179,903	-	-	179,903
Accounts payable and accrued expenses	126,039	-	-	126,039
Accrued compensated absences	126,245	-	-	126,245
Intercompany payables	-	108,737	(108,737)	-
Total Current Liabilities	<u>486,279</u>	<u>108,737</u>	<u>(108,737)</u>	<u>486,279</u>
 Total Liabilities	 <u>486,279</u>	 <u>108,737</u>	 <u>(108,737)</u>	 <u>486,279</u>
<u>Net Assets:</u>				
Unrestricted	1,064,584	(57,143)	-	1,007,441
Temporarily restricted	118,685	129,364	-	248,049
Total Net Assets	<u>1,183,269</u>	<u>72,221</u>	<u>-</u>	<u>1,255,490</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,669,548</u>	<u>\$ 180,958</u>	<u>\$ (108,737)</u>	<u>\$ 1,741,769</u>

**WALDEN FAMILY SERVICES
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Revenue and Support:</u>				
Adoption revenue	\$ 595,000	\$ -	\$ -	\$ 595,000
Aftercare revenue	188,855	-	-	188,855
Cal learn revenue	327,180	-	-	327,180
Foster care placements	4,456,369	-	-	4,456,369
Grants and contributions	203,058	930,462	-	1,133,520
Nuturing parenting program revenue	326,104	-	-	326,104
Other income	45,700	170	-	45,870
Transitional housing program revenue	3,073,897	-	-	3,073,897
Visitation revenue	765,914	-	-	765,914
Total Revenue and Support	<u>9,982,077</u>	<u>930,632</u>	<u>-</u>	<u>10,912,709</u>
<u>Expenses:</u>				
Program Services	<u>8,689,673</u>	<u>169,774</u>	<u>-</u>	<u>8,859,447</u>
Supporting Services:				
General and administrative	683,298	-	-	683,298
Fundraising	-	450,890	-	450,890
Total Supporting Services	<u>683,298</u>	<u>450,890</u>	<u>-</u>	<u>1,134,188</u>
Total Expenses	<u>9,372,971</u>	<u>620,664</u>	<u>-</u>	<u>9,993,635</u>
Change in Net Assets	609,106	309,968	-	919,074
Net Assets at Beginning of Year	<u>1,183,269</u>	<u>72,221</u>	<u>-</u>	<u>1,255,490</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,792,375</u>	<u>\$ 382,189</u>	<u>\$ -</u>	<u>\$ 2,174,564</u>

**WALDEN FAMILY SERVICES
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Revenue and Support:</u>				
Adoption revenue	\$ 400,000	\$ -	\$ -	\$ 400,000
Aftercare revenue	199,816	-	-	199,816
Cal learn revenue	433,124	-	-	433,124
Foster care placements	4,949,646	-	-	4,949,646
Grants and contributions	216,481	442,016	-	658,497
Nuturing parenting program revenue	329,551	-	-	329,551
Other income	46,843	287	-	47,130
Transitional housing program revenue	1,218,610	-	-	1,218,610
Visitation revenue	773,722	-	-	773,722
Total Revenue and Support	<u>8,567,793</u>	<u>442,303</u>	<u>-</u>	<u>9,010,096</u>
<u>Expenses:</u>				
Program Services	<u>7,910,927</u>	<u>357,354</u>	<u>-</u>	<u>8,268,281</u>
Supporting Services:				
General and administrative	615,459	-	-	615,459
Fundraising	-	401,591	-	401,591
Total Supporting Services	<u>615,459</u>	<u>401,591</u>	<u>-</u>	<u>1,017,050</u>
Total Expenses	<u>8,526,386</u>	<u>758,945</u>	<u>-</u>	<u>9,285,331</u>
Change in Net Assets	41,407	(316,642)	-	(275,235)
Net Assets at Beginning of Year	<u>1,141,862</u>	<u>388,863</u>	<u>-</u>	<u>1,530,725</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,183,269</u>	<u>\$ 72,221</u>	<u>\$ -</u>	<u>\$ 1,255,490</u>

**WALDEN FAMILY SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Federal Grants/Pass -Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through to Subrecipient	Federal Expenditures
<u>U.S. Department of Health and Human Services:</u>			
Pass-Through Programs From:			
Temporary Assistance for Needy Families:			
	93.558		
County of San Bernardino		\$ -	\$ 327,180
County of San Diego		-	3,851
Total Temporary Assistance for Needy Families		<u>-</u>	<u>331,031</u>
Foster Care Title IV-E:			
	93.658		
County of Los Angeles		-	1,066,713
County of San Bernardino		-	1,056,434
County of Riverside		-	967,280
County of San Diego		-	318,610
Imperial County		-	122,679
County of Sacramento		-	22,253
County of Solano		-	16,686
County of Yolo		-	14,685
County of San Joaquin		-	5,769
County of Orange		-	5,205
County of Santa Barbara		-	1,904
Total Foster Care Title IV-E		<u>-</u>	<u>3,598,218</u>
Adoption Assistance:			
	93.659		
California Department of Health and Human Services		-	297,500
Social Services Block Grant:			
	93.667		
County of San Diego		-	46,262
Chafee Foster Care Independence Program (Aftercare):			
	93.674		
County of San Bernardino		-	113,313
Total U.S. Department of Health and Human Services		<u>-</u>	<u>4,386,324</u>
Total Expenditures of Federal Awards		<u>\$ -</u>	<u>\$ 4,386,324</u>

(Continued)

WALDEN FAMILY SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2015

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Walden Family Services under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Walden Family Services, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Walden Family Services.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

To the Board of Directors
Walden Family Services

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Walden Family Services, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated May 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Walden Family Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Walden Family Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Walden Family Services' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Walden Family Services' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
May 16, 2016



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance**

To the Board of Directors
Walden Family Services

Report on Compliance for Each Major Federal Program

We have audited Walden Family Services' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Walden Family Services' major federal programs for the year ended December 31, 2015. Walden Family Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Walden Family Services' major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Walden Family Services' 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Walden Family Services' compliance.

Opinion on Each Major Federal Program

In our opinion, Walden Family Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control over Compliance

Management of Walden Family Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Walden Family Services' internal control over compliance with the types of requirements that could have a direct and material effect on the each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Walden Family Services' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
May 16, 2016

**WALDEN FAMILY SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	<u> X </u> No	
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes	<u> X </u> None reported	
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No	

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified		
Internal control over major programs:			
Material weakness(es) identified?	_____ Yes	<u> X </u> None reported	
Significant deficiencies identified not considered to be material weakness(es)?	_____ Yes	<u> X </u> No	
Any audit findings disclosed that are required to be reported in accordance with 2CFR Section 200.51(a)?	_____ Yes	<u> X </u> No	

Identification of major programs:

<u>CDFA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.658	Foster Care Title IV-E
93.659	Adoption Assistance
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes _____ No

Section II - Financial Statement Findings:

None

Section III - Federal Award Findings and Questioned Costs:

None

**WALDEN FAMILY SERVICES
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015**

There were no prior audit findings for Walden Family Services relative to federal awards.