

**WALDEN ENVIRONMENT, INC.  
AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**Years Ended December 31, 2006 and 2005**

WALDEN ENVIRONMENT, INC. AND AFFILIATE  
CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
Years Ended December 31, 2006 and 2005

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TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3-4
Consolidated Statements of Functional Expenses	5-6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-12
SUPPLEMENTARY INFORMATION	
Schedule I – Consolidating Statement of Financial Position at December 31, 2006	14
Schedule II – Consolidating Statement of Financial Position at December 31, 2005	15
Schedule III – Consolidating Statement of Activities for Year Ended December 31, 2006	16
Schedule IV – Consolidating Statement of Activities for Year Ended December 31, 2005	17



GRICE, LUND AND TARKINGTON LLP  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Walden Environment, Inc. and Affiliate  
San Diego, California

We have audited the accompanying consolidated statements of financial position of Walden Environment, Inc. and Affiliate (nonprofit organizations) as of December 31, 2006 and 2005, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organizations' management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Walden Environment, Inc. and Affiliate as of December 31, 2006 and 2005, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The information included in Schedules I - IV is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*Grice, Lund & Tarkington, LLP*

Carlsbad, California  
February 27, 2007

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WALDEN ENVIRONMENT, INC. AND AFFILIATE  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,106,522	\$ 963,876
Investments	314,311	284,319
Accounts receivable, net of allowance for doubtful accounts of \$151,203 (2006) and \$159,845 (2005)	937,596	1,194,559
Prepaid expenses	<u>59,814</u>	<u>63,525</u>
TOTAL CURRENT ASSETS	2,418,243	2,506,279
PROPERTY AND EQUIPMENT, net	81,847	102,249
DEPOSITS	<u>36,865</u>	<u>41,412</u>
TOTAL ASSETS	<u>\$ 2,536,955</u>	<u>\$ 2,649,940</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 18,492	\$ 17,461
Overpayments	77,330	106,287
Accounts payable - foster parents	303,310	322,091
Accounts payable - other	114,111	116,547
Accrued compensated absences	161,842	134,279
Accrued expenses - other	<u>239,405</u>	<u>251,673</u>
TOTAL CURRENT LIABILITIES	914,490	948,338
LONG-TERM DEBT, net of current portion	<u>33,272</u>	<u>51,764</u>
TOTAL LIABILITIES	947,762	1,000,102
NET ASSETS		
Unrestricted	1,191,492	1,203,592
Temporarily restricted	<u>397,701</u>	<u>446,246</u>
TOTAL NET ASSETS	<u>1,589,193</u>	<u>1,649,838</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,536,955</u>	<u>\$ 2,649,940</u>

See notes to consolidated financial statements.

WALDEN ENVIRONMENT, INC. AND AFFILIATE  
CONSOLIDATED STATEMENT OF ACTIVITIES  
Year Ended December 31, 2006

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Foster care placements	\$ 8,814,985	\$ -	\$ 8,814,985
Mental health service reimbursements	354,319	-	354,319
Grants and contributions	35,874	368,561	404,435
Other	75,773	-	75,773
Investment return	48,233	-	48,233
Net assets released from restrictions, satisfaction of program restrictions	417,106	(417,106)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>9,746,290</b>	<b>(48,545)</b>	<b>9,697,745</b>
<b>EXPENSES</b>			
Program services	8,662,621	-	8,662,621
Supporting services			
General and administrative	945,310	-	945,310
Fundraising	150,459	-	150,459
<b>TOTAL EXPENSES</b>	<b>9,758,390</b>	<b>-</b>	<b>9,758,390</b>
<b>DECREASE IN NET ASSETS</b>	<b>(12,100)</b>	<b>(48,545)</b>	<b>(60,645)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>1,203,592</b>	<b>446,246</b>	<b>1,649,838</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,191,492</b>	<b>\$ 397,701</b>	<b>\$ 1,589,193</b>

WALDEN ENVIRONMENT, INC. AND AFFILIATE  
CONSOLIDATED STATEMENT OF ACTIVITIES  
Year Ended December 31, 2005

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Foster care placements	\$ 8,834,224	\$ -	\$ 8,834,224
Mental health service reimbursements	483,483	-	483,483
Grants and contributions	3,686	549,733	553,419
Other	134,160	-	134,160
Investment return	29,492	-	29,492
Net assets released from restrictions, satisfaction of program restrictions	427,446	(427,446)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>9,912,491</b>	<b>122,287</b>	<b>10,034,778</b>
<b>EXPENSES</b>			
Program services	8,767,599	-	8,767,599
Supporting services			
General and administrative	872,966	-	872,966
Fundraising	121,197	-	121,197
<b>TOTAL EXPENSES</b>	<b>9,761,762</b>	<b>-</b>	<b>9,761,762</b>
<b>INCREASE IN NET ASSETS</b>	<b>150,729</b>	<b>122,287</b>	<b>273,016</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>1,052,863</b>	<b>323,959</b>	<b>1,376,822</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,203,592</b>	<b>\$ 446,246</b>	<b>\$ 1,649,838</b>

See notes to consolidated financial statements.

WALDEN ENVIRONMENT, INC. AND AFFILIATE  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended December 31, 2006

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Foster parents	\$ 3,532,145	\$ -	\$ -	\$ 3,532,145
Payroll	2,724,994	546,633	76,220	3,347,847
Payroll taxes and employee benefits	572,420	96,127	10,205	678,752
Office rents and leases	417,202	53,994	-	471,196
Consulting	278,910	21,235	3,869	304,014
Insurance	168,300	35,132	-	203,432
Mileage reimbursement	165,898	6,700	1,389	173,987
Advertising - foster parents	159,248	-	-	159,248
Regional center respite care	135,523	-	-	135,523
Other	90,250	9,750	2,758	102,758
Telephone	64,615	9,594	994	75,203
Activities and special events	26,236	390	46,823	73,449
Office and computer maintenance and supplies	37,630	12,878	2,294	52,802
Professional fees	9,144	35,187	-	44,331
Utilities	35,385	7,962	-	43,347
Equipment rents and leases	32,904	3,805	-	36,709
Depreciation	26,562	7,232	-	33,794
Behavior modification rewards	33,072	-	-	33,072
Postage	20,670	8,000	954	29,624
Memberships and dues	2,263	25,769	1,045	29,077
Travel	16,793	9,678	1,464	27,935
Licenses and fees	24,708	1,416	-	26,124
Conferences, meetings and training	16,127	4,359	270	20,756
Foster parent well-being	19,867	-	-	19,867
Advertising - employment	7,764	11,402	-	19,166
Printing	8,919	7,957	156	17,032
Storage	6,043	8,910	-	14,953
Training - foster parents	12,431	-	-	12,431
Bank and payroll charges	-	9,890	1,484	11,374
Equipment and building maintenance and supplies	3,945	6,041	534	10,520
Foster parent bonuses	10,176	-	-	10,176
Interest	-	5,269	-	5,269
Contract labor	2,477	-	-	2,477
	<u>\$ 8,662,621</u>	<u>\$ 945,310</u>	<u>\$ 150,459</u>	<u>\$ 9,758,390</u>

See notes to consolidated financial statements.

WALDEN ENVIRONMENT, INC. AND AFFILIATE  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended December 31, 2005

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Foster parents	\$ 3,488,173	\$ -	\$ -	\$ 3,488,173
Payroll	2,815,849	472,699	62,011	3,350,559
Payroll taxes and employee benefits	570,860	114,142	9,273	694,275
Office rents and leases	414,235	61,876	-	476,111
Consulting	312,329	8,418	525	321,272
Insurance	185,756	36,882	-	222,638
Mileage reimbursement	147,176	5,728	510	153,414
Regional center respite care	138,221	-	-	138,221
Advertising - foster parents	136,818	-	-	136,818
Activities and special events	72,955	-	34,788	107,743
Telephone	72,695	11,167	1,099	84,961
Foster parent bonuses	60,710	-	-	60,710
Office and computer maintenance and supplies	39,200	11,411	3,753	54,364
Other	31,882	10,011	3,673	45,566
Licenses and fees	43,734	98	-	43,832
Utilities	31,899	11,832	-	43,731
Depreciation	31,994	6,435	-	38,429
Professional fees	4,421	29,812	-	34,233
Equipment rents and leases	29,305	3,771	-	33,076
Postage	20,489	7,085	449	28,023
Conferences, meetings and training	18,520	6,223	596	25,339
Bank and payroll charges	203	24,514	-	24,717
Behavior modification rewards	18,544	-	3,166	21,710
Advertising - employment	18,124	2,778	-	20,902
Travel	12,179	7,464	96	19,739
Memberships and dues	2,369	15,239	280	17,888
Training - foster parents	16,634	63	-	16,697
Storage	5,168	8,687	-	13,855
Interest	-	13,390	-	13,390
Foster parent well-being	11,607	-	-	11,607
Printing	6,776	2,277	95	9,148
Equipment and building maintenance and supplies	6,713	804	883	8,400
Contract labor	2,061	160	-	2,221
	<u>\$ 8,767,599</u>	<u>\$ 872,966</u>	<u>\$ 121,197</u>	<u>\$ 9,761,762</u>

See notes to consolidated financial statements.



WALDEN ENVIRONMENT, INC. AND AFFILIATE  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ (60,645)	\$ 273,016
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Gain on investments	(35,810)	(19,739)
Depreciation	33,794	38,429
(Increase) decrease in operating assets:		
Accounts receivable, net	256,963	138,440
Prepaid expenses	3,711	(6,698)
Increase (decrease) in operating liabilities:		
Overpayments	(28,957)	(38,512)
Accounts payable	(21,217)	42,930
Accrued expenses	15,295	8,811
	<u>163,134</u>	<u>436,677</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(4,708)	(7,120)
Proceeds from sale of investments	10,526	52,855
Purchases of property and equipment	(13,392)	(11,220)
Decrease in deposits	4,547	3,666
	<u>(3,027)</u>	<u>38,181</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	(17,461)	(16,486)
Net decrease in line of credit		(200,000)
	<u>(17,461)</u>	<u>(216,486)</u>
	142,646	258,372
	<u>963,876</u>	<u>705,504</u>
	<u>\$ 1,106,522</u>	<u>\$ 963,876</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 5,269	\$ 13,390

WALDEN ENVIRONMENT, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2006 and 2005

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NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Walden Environment, Inc. (Walden) was formed in 1977 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. Its goal is to help stabilize children, youth and families through community-based prevention and intervention services. Its primary program is a foster family agency which is engaged in the recruitment, certification, and training of foster parents, and the placement of foster children. Walden's funding comes primarily from federal, state, and county welfare programs.

Walden Family Services Foundation, Inc. (Foundation) was incorporated in 2001. The purpose of the Foundation is the solicitation, receipt, and administration of contributions for the benefit of Walden. The Foundation's support is mainly from contributions received from businesses and individuals in Southern California.

Principles of Consolidation

The consolidated financial statements include the accounts of Walden Environment, Inc. and its affiliate, Walden Family Services Foundation, Inc. (Organizations). All significant interorganization accounts and transactions have been eliminated.

Basis of Presentation

The Organizations report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organizations had no permanently restricted net assets during the years ended December 31, 2006 and 2005.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statements of financial position. Gains and losses are included in the change in net assets in the consolidated statements of activities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

**WALDEN ENVIRONMENT, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2006 and 2005

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

Accounts Receivable and Overpayments

Accounts receivable consist of program fees due from counties in Southern California that have been earned for foster family children. An allowance for doubtful accounts has been established to adjust the receivables to estimated net realizable value, with a corresponding decrease to program revenue. Based upon a periodic review, accounts are written off against the allowance when they are deemed to be uncollectible. The current provision for uncollectible receivables has been estimated based on a percentage of net accounts receivable that reflects historical uncollectible amounts and current circumstances. Overpayments are fees received from funding sources which Walden has determined are not due at the time of receipt.

Property and Equipment

Property and equipment are carried at cost or, if donated, at approximate value at the date of the gift. The Organizations capitalize property and equipment with an original cost or value of \$500 or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of three to five years.

Unemployment Insurance

The Organizations are self insured under a program for California unemployment insurance. Under this plan, the Organizations are liable for unemployment claims paid by the State to former employees.

Income Taxes

The Organizations are exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. The Organizations currently have no unrelated business income. Therefore, no provision for income taxes has been made. The Organizations are not private foundations.

Advertising Costs

Advertising costs are expensed as they are incurred.

Contributed Materials and Services

Contributed materials are recorded at their fair market value where an objective basis is available to measure their value. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed. Such items are capitalized or charged to operations as appropriate.

NOTE 2. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2006</u>	<u>2005</u>
Furniture and equipment	\$ 669,586	\$ 656,194
Leasehold improvements	24,545	24,545
Software	18,126	18,126
	<u>712,257</u>	<u>698,865</u>
Less accumulated depreciation	<u>(630,410)</u>	<u>(596,616)</u>
	<u>\$ 81,847</u>	<u>\$ 102,249</u>

WALDEN ENVIRONMENT, INC. AND AFFILIATE  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2006 and 2005

NOTE 3. OPERATING LEASE COMMITMENTS

The Organizations lease all of their facilities under various operating lease agreements. Total rent expense for the years ended December 31, 2006 and 2005 was \$471,196 and \$476,111, respectively.

Minimum future lease payments at December 31, 2006 are as follows:

Year Ending December 31,	
2007	\$ 409,540
2008	348,872
2009	221,296
2010	156,258
Thereafter	-
	<u>\$ 1,135,966</u>

The Organizations also lease certain office equipment under various operating lease agreements and month-to-month rentals. Total rent expense for the years ended December 31, 2006 and 2005 was \$36,709 and \$33,076, respectively.

Minimum future lease payments at December 31, 2006 are as follows:

Year Ending December 31,	
2007	\$ 27,448
2008	24,303
2009	19,826
2010	6,691
Thereafter	-
	<u>\$ 78,268</u>

NOTE 4. INVESTMENTS

Investments consist of the following:

	2006	2005
Domestic equity	\$ 177,318	\$ 160,116
International equity	83,306	71,370
Fixed income	53,687	52,833
	<u>\$ 314,311</u>	<u>\$ 284,319</u>

Investment return consists of the following:

	2006	2005
Interest and dividends	\$ 16,015	\$ 12,863
Gain on investments	35,810	19,739
Investment management fees	(3,592)	(3,110)
	<u>\$ 48,233</u>	<u>\$ 29,492</u>

**WALDEN ENVIRONMENT, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2006 and 2005

**NOTE 5. LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2006</u>	<u>2005</u>
Union Bank of California, secured by equipment, payable in monthly installments of \$1,749 including interest at 5.75%, matures August 2009	\$ 51,764	\$ 69,225
Less current portion	<u>(18,492)</u>	<u>(17,461)</u>
	<u>\$ 33,272</u>	<u>\$ 51,764</u>

Principal maturities of long-term debt at December 31, 2006 are as follows:

<u>Year ending December 31,</u>	
2007	\$ 18,492
2008	19,584
2009	<u>13,688</u>
	<u>\$ 51,764</u>

**NOTE 6. LINE OF CREDIT**

Walden has a line of credit of \$350,000 with Union Bank of California. Interest is payable monthly at the prime rate plus 1%. The line of credit agreement expires March 19, 2007. There was no balance due on the line of credit at December 31, 2006 and 2005.

**NOTE 7. FOSTER CARE REVENUE**

Walden receives foster care payments for its children from the respective counties. In turn, Walden, under contract with the foster parents, issues monthly payments to the foster families for its children. The net funds utilized by Walden represent approximately 40% of the total foster care revenue for both the years ended December 31, 2006 and 2005.

**NOTE 8. MENTAL HEALTH SERVICES**

Walden provides mental health services and receives reimbursements per contract for its children from the respective counties.

**NOTE 9. DEFERRED COMPENSATION PLAN**

The Organizations sponsor an IRS 401(k) deferred compensation plan. Employees can 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 Organizations make matching contributions to the Plan. The matching contribution is 25% of each employee's contribution to a maximum of \$750 per year. Total expense was \$20,507 and \$21,924 for the years ended December 31, 2006 and 2005, respectively.

WALDEN ENVIRONMENT, INC. AND AFFILIATE  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2006 and 2005

NOTE 10. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2006</u>	<u>2005</u>
Employee skills	\$ 21,147	\$ 25,146
Community council	36,961	26,120
Management information systems	-	4,047
Multi-dimensional treatment foster care	207,634	162,106
Independent futures	78,099	72,696
Transitions	-	90,516
Special projects	53,860	65,615
	<u>\$ 397,701</u>	<u>\$ 446,246</u>

NOTE 11. CONCENTRATION OF CREDIT RISK

The Organizations have deposits in financial institutions in excess of the amount insured by the Federal Depository Insurance Corporation. The Organizations manage the risk by using only high quality financial institutions.

NOTE 12. RECLASSIFICATIONS

Certain items in the 2005 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported changes in net assets.

NOTE 13. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

## SUPPLEMENTARY INFORMATION

WALDEN ENVIRONMENT, INC. AND AFFILIATE  
 SCHEDULE I - CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
 December 31, 2006

	Walden	Foundation	Eliminations	Total
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 660,818	\$ 445,704	\$ -	\$ 1,106,522
Investments	165,252	149,059	-	314,311
Accounts receivable, net of allowance for doubtful accounts of \$151,203	935,896	1,700	-	937,596
Prepaid expenses	59,814	-	-	59,814
Due from Foundation	56,596	-	(56,596)	-
<b>TOTAL CURRENT ASSETS</b>	<b>1,878,376</b>	<b>596,463</b>	<b>(56,596)</b>	<b>2,418,243</b>
PROPERTY AND EQUIPMENT, net	81,847	-	-	81,847
DEPOSITS	36,865	-	-	36,865
<b>TOTAL ASSETS</b>	<b>\$ 1,997,088</b>	<b>\$ 596,463</b>	<b>\$ (56,596)</b>	<b>\$ 2,536,955</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term debt	\$ 18,492	\$ -	\$ -	\$ 18,492
Overpayments	77,330	-	-	77,330
Accounts payable - foster parents	303,310	-	-	303,310
Accounts payable - other	114,111	-	-	114,111
Accrued compensated absences	161,842	-	-	161,842
Accrued expenses - other	239,405	-	-	239,405
Due to Walden	-	56,596	(56,596)	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>914,490</b>	<b>56,596</b>	<b>(56,596)</b>	<b>914,490</b>
LONG-TERM DEBT, net of current portion	33,272	-	-	33,272
<b>TOTAL LIABILITIES</b>	<b>947,762</b>	<b>56,596</b>	<b>(56,596)</b>	<b>947,762</b>
<b>NET ASSETS</b>				
Unrestricted	1,049,326	142,166	-	1,191,492
Temporarily restricted	-	397,701	-	397,701
<b>TOTAL NET ASSETS</b>	<b>1,049,326</b>	<b>539,867</b>	<b>-</b>	<b>1,589,193</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,997,088</b>	<b>\$ 596,463</b>	<b>\$ (56,596)</b>	<b>\$ 2,536,955</b>

See independent auditors' report.



**WALDEN ENVIRONMENT, INC. AND AFFILIATE**  
**SCHEDULE II - CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
 December 31, 2005

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 454,621	\$ 509,255	\$ -	\$ 963,876
Investments	150,582	133,737	-	284,319
Accounts receivable, net of allowance for doubtful accounts of \$159,845	1,192,559	2,000	-	1,194,559
Prepaid expenses	63,525	-	-	63,525
Due from Foundation	102,358	-	(102,358)	-
<b>TOTAL CURRENT ASSETS</b>	<b>1,963,645</b>	<b>644,992</b>	<b>(102,358)</b>	<b>2,506,279</b>
PROPERTY AND EQUIPMENT, net	102,249	-	-	102,249
DEPOSITS	41,412	-	-	41,412
<b>TOTAL ASSETS</b>	<b>\$ 2,107,306</b>	<b>\$ 644,992</b>	<b>\$ (102,358)</b>	<b>\$ 2,649,940</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long-term debt	\$ 17,461	\$ -	\$ -	\$ 17,461
Overpayments	106,287	-	-	106,287
Accounts payable - foster parents	322,091	-	-	322,091
Accounts payable - other	116,547	-	-	116,547
Accrued compensated absences	134,279	-	-	134,279
Accrued expenses - other	251,673	-	-	251,673
Due to Walden	-	102,358	(102,358)	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>948,338</b>	<b>102,358</b>	<b>(102,358)</b>	<b>948,338</b>
LONG-TERM DEBT, net of current portion	51,764	-	-	51,764
<b>TOTAL LIABILITIES</b>	<b>1,000,102</b>	<b>102,358</b>	<b>(102,358)</b>	<b>1,000,102</b>
<b>NET ASSETS</b>				
Unrestricted	1,107,204	96,388	-	1,203,592
Temporarily restricted	-	446,246	-	446,246
<b>TOTAL NET ASSETS</b>	<b>1,107,204</b>	<b>542,634</b>	<b>-</b>	<b>1,649,838</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,107,306</b>	<b>\$ 644,992</b>	<b>\$ (102,358)</b>	<b>\$ 2,649,940</b>

See independent auditors' report.

WALDEN ENVIRONMENT, INC. AND AFFILIATE  
 SCHEDULE III - CONSOLIDATING STATEMENT OF ACTIVITIES  
 Year Ended December 31, 2006

	Walden	Foundation	Eliminations	Total
<b>SUPPORT AND REVENUE</b>				
Foster care placements	\$ 8,814,985	\$ -	\$ -	\$ 8,814,985
Mental health service reimbursements	354,319	-	-	354,319
Grants and contributions	421,322	404,435	(421,322)	404,435
Other	75,773	-	-	75,773
Investment return	32,629	15,604	-	48,233
<b>TOTAL SUPPORT AND REVENUE</b>	<b>9,699,028</b>	<b>420,039</b>	<b>(421,322)</b>	<b>9,697,745</b>
<b>EXPENSES</b>				
Program services	8,662,621	-	-	8,662,621
Supporting services				
General and administrative	945,310	-	-	945,310
Fundraising	148,975	1,484	-	150,459
Contributions made	-	421,322	(421,322)	-
<b>TOTAL EXPENSES</b>	<b>9,756,906</b>	<b>422,806</b>	<b>(421,322)</b>	<b>9,758,390</b>
<b>DECREASE IN NET ASSETS</b>	<b>(57,878)</b>	<b>(2,767)</b>	<b>-</b>	<b>(60,645)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>1,107,204</b>	<b>542,634</b>	<b>-</b>	<b>1,649,838</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,049,326</b>	<b>\$ 539,867</b>	<b>\$ -</b>	<b>\$ 1,589,193</b>

See independent auditors' report.

WALDEN ENVIRONMENT, INC. AND AFFILIATE  
SCHEDULE IV - CONSOLIDATING STATEMENT OF ACTIVITIES  
Year Ended December 31, 2005

	Walden	Foundation	Eliminations	Total
<b>SUPPORT AND REVENUE</b>				
Foster care placements	\$ 8,834,224	\$ -	\$ -	\$ 8,834,224
Mental health service reimbursements	483,483	-	-	483,483
Grants and contributions	427,446	553,419	(427,446)	553,419
Other	134,160	-	-	134,160
Investment return	20,474	9,018	-	29,492
<b>TOTAL SUPPORT AND REVENUE</b>	<b>9,899,787</b>	<b>562,437</b>	<b>(427,446)</b>	<b>10,034,778</b>
<b>EXPENSES</b>				
Program services	8,767,599	-	-	8,767,599
Supporting services				
General and administrative	872,966	-	-	872,966
Fundraising	121,197	-	-	121,197
Contributions made	-	427,446	(427,446)	-
<b>TOTAL EXPENSES</b>	<b>9,761,762</b>	<b>427,446</b>	<b>(427,446)</b>	<b>9,761,762</b>
<b>INCREASE IN NET ASSETS</b>	<b>138,025</b>	<b>134,991</b>	<b>-</b>	<b>273,016</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>969,179</b>	<b>407,643</b>	<b>-</b>	<b>1,376,822</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,107,204</b>	<b>\$ 542,634</b>	<b>\$ -</b>	<b>\$ 1,649,838</b>

