

WALDEN FAMILY SERVICES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009



Leaf & Cole, LLP
Certified Public Accountants

**WALDEN FAMILY SERVICES
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Independent Auditor's Report

To the Board of Directors
Walden Family Services

We have audited the accompanying consolidated statement of financial position of Walden Family Services as of December 31, 2010, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of Walden Family Services' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Walden Family Services as of December 31, 2009, were audited by other auditors whose report dated May 19, 2010, expressed an unqualified opinion on those consolidated statements.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Walden Family Services as of December 31, 2010, and the changes in their net assets and their cash flows for the year 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 April 19, 2011, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information 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 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 Nonprofit Organizations, 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 taken as a whole.

Leaf & Cole LLP

San Diego, California
April 19, 2011

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009**

ASSETS

	<u>2010</u>	<u>2009</u>
<u>Current Assets:</u> (Notes 1 and 2)		
Cash and cash equivalents	\$ 755,956	\$ 936,246
Investments	-	136,749
Accounts receivable, net	826,459	755,779
Prepaid expenses	45,397	114,980
Total Current Assets	<u>1,627,812</u>	<u>1,943,754</u>
<u>Noncurrent Assets:</u> (Notes 1, 3 and 4)		
Property and equipment, net	68,221	99,328
Deposits	28,934	45,867
Total Noncurrent Assets	<u>97,155</u>	<u>145,195</u>
TOTAL ASSETS	<u>\$ 1,724,967</u>	<u>\$ 2,088,949</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Notes 1 and 4)		
Overpayments	\$ 32,162	\$ 44,517
Accounts payable - Foster parents	210,342	245,011
Accounts payable and accrued expenses	264,139	314,796
Accrued compensated absences	137,442	157,018
Current portion of noncurrent liabilities	7,486	7,476
Total Current Liabilities	<u>651,571</u>	<u>768,818</u>
<u>Noncurrent Liabilities:</u> (Note 4)		
Note payable, net of current portion	<u>3,733</u>	<u>11,229</u>
Total Liabilities	<u>655,304</u>	<u>780,047</u>
<u>Commitments</u> (Notes 6 and 7)		
<u>Net Assets:</u> (Notes 1 and 5)		
Unrestricted	768,520	908,435
Temporarily restricted	301,143	400,467
Total Net Assets	<u>1,069,663</u>	<u>1,308,902</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,724,967</u>	<u>\$ 2,088,949</u>

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

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenue and Support:</u>			
Foster care placements	\$ 6,138,253	\$ -	\$ 6,138,253
Mental health service reimbursements	328,170	-	328,170
Grants and contributions	90,958	352,776	443,734
Adoption revenue	140,000	-	140,000
Investment return	1,587	-	1,587
Aftercare revenue	99,685	-	99,685
Other	31,221	-	31,221
Net assets released from restriction	452,100	(452,100)	-
Total Revenue and Support	<u>7,281,974</u>	<u>(99,324)</u>	<u>7,182,650</u>
<u>Expenses:</u>			
Program Services	6,496,476	-	6,496,476
Supporting Services:			
General and administrative	807,995	-	807,995
Fundraising	<u>117,418</u>	<u>-</u>	<u>117,418</u>
Total Supporting Services	<u>925,413</u>	<u>-</u>	<u>925,413</u>
Total Expenses	<u>7,421,889</u>	<u>-</u>	<u>7,421,889</u>
Change in Net Assets	(139,915)	(99,324)	(239,239)
Net Assets at Beginning of Year	<u>908,435</u>	<u>400,467</u>	<u>1,308,902</u>
NET ASSETS AT END OF YEAR	<u>\$ 768,520</u>	<u>\$ 301,143</u>	<u>\$ 1,069,663</u>

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

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenue and Support:</u>			
Foster care placements	\$ 7,200,619	\$ -	\$ 7,200,619
Mental health service reimbursements	359,400	-	359,400
Grants and contributions	367,148	394,841	761,989
Adoption revenue	70,000	-	70,000
Other	55,422	-	55,422
Investment return	37,155	-	37,155
Net assets released from restriction	319,402	(319,402)	-
Total Revenue and Support	<u>8,409,146</u>	<u>75,439</u>	<u>8,484,585</u>
<u>Expenses:</u>			
Program Services	7,357,537	-	7,357,537
Supporting Services:			
General and administrative	874,433	-	874,433
Fundraising	175,271	-	175,271
Total Supporting Services	<u>1,049,704</u>	<u>-</u>	<u>1,049,704</u>
Total Expenses	<u>8,407,241</u>	<u>-</u>	<u>8,407,241</u>
Change in Net Assets	1,905	75,439	77,344
Net Assets at Beginning of Year	<u>906,530</u>	<u>325,028</u>	<u>1,231,558</u>
NET ASSETS AT END OF YEAR	<u>\$ 908,435</u>	<u>\$ 400,467</u>	<u>\$ 1,308,902</u>

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

WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Foster youth support and case management	\$ 2,070,489	\$ 398,114	\$ 83,174	\$ 2,551,777
Foster parent reimbursements	2,520,824	-	-	2,520,824
Payroll taxes and employee benefits	512,817	103,024	9,672	625,513
Office rents and leases	368,824	65,034	2,636	436,494
Behavior and nurse consultants, human resources and accounting consultants	208,096	15,002	861	223,959
Insurance	99,597	24,232	7,874	131,703
Mileage reimbursement	124,398	4,009	2,173	130,580
Regional center respite care	85,947	-	-	85,947
Advertising - foster parents	69,680	-	-	69,680
Licenses and fees	63,366	718	2,461	66,545
Telecommunications	56,606	9,151	-	65,757
Emancipated youth	60,757	-	-	60,757
Office and computer maintenance and supplies	35,401	21,218	215	56,834
Other	38,136	7,941	991	47,068
Foster parent well-being	35,362	-	-	35,362
Depreciation	12,231	22,036	-	34,267
Bank and payroll charges	156	34,051	-	34,207
Equipment rents and leases	26,394	5,679	-	32,073
Professional fees	-	29,870	-	29,870
Contract labor	5,141	22,417	50	27,608
School supplies and foster parent kits	26,254	36	-	26,290
School activities and special events	17,461	-	-	17,461
Printing	11,371	1,330	3,175	15,876
Memberships and dues	1,076	13,246	881	15,203
Postage	11,052	3,745	38	14,835
Storage	3,096	9,440	-	12,536
Conferences, meetings and training	5,826	4,644	405	10,875
Utilities	8,769	1,346	-	10,115
Advertising and marketing	587	6,364	2,420	9,371
Equipment and building maintenance and supplies	6,224	1,410	-	7,634
Travel	2,065	3,938	392	6,395
Training - foster parents	5,523	-	-	5,523
Foster parent recruitment bonuses	2,950	-	-	2,950
Total Expenses	<u>\$ 6,496,476</u>	<u>\$ 807,995</u>	<u>\$ 117,418</u>	<u>\$ 7,421,889</u>

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

WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Foster youth support and case management	\$ 2,347,938	\$ 462,758	\$ 120,171	\$ 2,930,867
Foster parent reimbursements	2,897,501	-	-	2,897,501
Payroll taxes and employee benefits	532,048	76,262	24,798	633,108
Office rents and leases	359,531	68,208	7,193	434,932
Behavior and nurse consultants, human resources and accounting consultants	241,122	9,064	2,855	253,041
Mileage reimbursement	123,830	4,142	5,270	133,242
Insurance	103,036	23,473	-	126,509
Regional center respite care	106,044	-	-	106,044
Advertising - foster parents	100,972	-	-	100,972
Other	68,467	20,873	2,632	91,972
Emancipated youth	87,629	-	-	87,629
Professional fees	205	69,597	-	69,802
Telecommunications	59,608	9,022	-	68,630
School supplies and foster parent kits	66,612	920	-	67,532
Office and computer maintenance and supplies	35,324	20,314	2,742	58,380
Depreciation	31,222	11,548	-	42,770
Licenses and fees	39,201	354	2,390	41,945
Equipment rents and leases	26,889	6,833	-	33,722
Bank and payroll charges	7	29,678	-	29,685
Foster parent well-being	27,959	-	-	27,959
School activities and special events	23,699	-	-	23,699
Printing	15,004	3,485	3,304	21,793
Postage	14,531	4,238	664	19,433
Travel	6,515	10,870	301	17,686
Conferences, meetings and training	7,883	8,314	1,094	17,291
Memberships and dues	1,001	13,308	1,228	15,537
Storage	2,689	9,190	-	11,879
Utilities	9,220	2,140	-	11,360
Marketing	1,124	8,552	529	10,205
Training - foster parents	6,416	-	-	6,416
Equipment and building maintenance and supplies	4,396	1,190	-	5,586
Contract labor	4,550	75	-	4,625
Foster parent recruitment bonuses	3,265	-	-	3,265
Behavior modification rewards	1,545	-	-	1,545
Advertising and marketing	554	25	100	679
Total Expenses	<u>\$ 7,357,537</u>	<u>\$ 874,433</u>	<u>\$ 175,271</u>	<u>\$ 8,407,241</u>

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

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (239,239)	\$ 77,344
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	34,267	42,770
Net realized and unrealized gains on investments	(3,096)	(35,498)
(Increase) Decrease in:		
Accounts receivable, net	(70,680)	128,699
Prepaid expenses	69,583	7,898
Increase (Decrease) in:		
Overpayments	(12,355)	(24,410)
Accounts payable and accrued expenses	(104,902)	8,610
Net Cash (Used in) Provided by Operating Activities	<u>(326,422)</u>	<u>205,413</u>
 <u>Cash Flows From Investing Activities:</u>		
Purchases of investments	-	(79,140)
Proceeds from sale of investments	139,845	133,647
Purchases of property and equipment	(3,160)	(24,391)
Decrease in deposits	16,933	515
Net Cash Provided by Investing Activities	<u>153,618</u>	<u>30,631</u>
 <u>Cash Flows From Financing Activities:</u>		
Payments on note payable	(7,486)	(21,175)
Net Cash Used in Financing Activities	<u>(7,486)</u>	<u>(21,175)</u>
 Net (Decrease) Increase in Cash and Cash Equivalents	(180,290)	214,869
 Cash and Cash Equivalents at Beginning of Year	<u>936,246</u>	<u>721,377</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 755,956</u>	<u>\$ 936,246</u>
 <u>Supplemental Disclosures of Noncash Investing and Financing Activities:</u>		
Cash paid for interest	<u>\$ -</u>	<u>\$ 102</u>

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

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 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 Family Services Foundation

Walden Family Services Foundation (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.

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

▪ **Adoption**

Walden Family Services is committed to the child’s need for a permanent home. In order to facilitate strong attachments, Walden provides training and supportive therapy for the family and child. In addition, post adoptive services are provided after the legal adoption services are finalized. Walden is committed to facilitating the family’s adjustments as the child grows through each developmental stage into early adulthood.

▪ **Therapeutic Foster Care**

Therapeutic foster care is an alternative to institutionalization for children. The children in Walden’s care have severe emotional and behavioral challenges as a result of past abuse and are in need of 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. With Walden’s specially trained foster families and support services, children that otherwise would be in a group home are able to live with a family. Walden is a cost-effective alternative to group home care that allows children to grow into healthy adult members of the community.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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

Organization (Continued)

▪ **Special Health Care Needs**

Walden's Special Health Care Needs (SHCN) program is designed to move medically fragile children out of skilled nursing facilities and hospitals into highly skilled and specifically trained certified foster families. This program also cares for children with technology-dependent conditions such as apnea monitors, nebulizers, oxygen, feeding tubes and other adaptive equipment. Other children in the program may include drug-exposed infants, juvenile diabetics, failure to thrive infants, premature infants, or children with other life threatening medical conditions. This unique program includes intensive training and support for foster parents willing to care for a child with special health care needs.

▪ **Mental Health Services**

As a result of past trauma, many foster children need mental health services such as individual, group and family counseling, skill building activities and psychiatric services to heal. In 2002, Walden opened a mental health clinic in San Diego County to ensure our children develop into healthy adults. Services include individual and family therapy, group therapy, skills training, parent coaching and psychiatric services.

▪ **Developmental Disabilities Program**

Walden Family Services serves the needs of foster children and teens with developmental disabilities and behavioral challenges. Developmental disabilities include mental retardation, cerebral palsy, epilepsy, autism and other similar challenges. The goal of this program is to prevent institutionalization, prepare children and teens for maximum independence and enrich lives by participation in a full range of normal life experiences in family and community settings.

▪ **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 supports California Statute SB500 (Whole Family Foster Home - WFFH) placements and provides the services listed in the above paragraph to WFFH placements.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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

Organization (Continued)

▪ **Independent Futures Program**

Walden Created the Independent Futures Program in 2001 to assist pre and post emancipated foster youth who were placed with Walden when they exit from foster care. It is a grant and philanthropy funded program which serves over 150 pre and post emancipated foster youth.

Walden believes that many transition age youth are eager to take control of their own destinies, but don't have the means and/or skills to do so. For that and many other imperative reasons, Walden is committed to responding to the realities that all foster youth face as they transition to adulthood. Walden gives particular attention to the challenges that youth face as they leave foster care. Independent Futures seeks to help adolescents and youth adults develop concrete and abstract life skills that are necessary to live as healthy, self-sufficient, responsible and productive adults. This is accomplished by providing the young adult with strengths-based and youth adult driven case management as well as a safe and supportive setting that facilitates opportunities for age-appropriate mistakes and accountability.

▪ **San Bernardino After Care**

Walden's Aftercare program is a supportive service that assists former foster youth with overcoming the challenges they may face when leaving foster care. We believe former foster youth have what it takes to succeed and support them in common areas that former foster youth often struggle such as, daily life skills, medical, dental and emotional health, mentoring, educational assistance, employment assistance, housing assistance and permanent connection support.

▪ **Lesbian, Gay, Bisexual, Transgender and Questioning (LGBTQ) Network**

This program is designed to meet the special needs of LGBTQ foster youth. The focus of this program is education and advocacy services for LGBTQ foster youth and training and support for child welfare providers, foster parent, educators and birth families. Walden Family Services has actively recruited members of the LGBTQ community to become certified foster parents for years. Additionally, Walden adheres to California State Statute AB458.

Significant Accounting Policies

Consolidated Financial Statements

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

WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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

Significant Accounting Policies (Continued)

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.

In June 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) was issued. The Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The Codification is effective for financials statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard did not have a material impact on the consolidated financial position and results of operations.

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.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

The Organization has adopted the fair value standards for financial assets and liabilities that are required to be measured at fair value on a recurring basis. The Fair Value Measurement 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). These standards do not change existing guidance as to whether or not an instrument is carried at fair value.

The Organization's consolidated statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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

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 children. Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables and unconditional promises to give. The allowance for doubtful receivables totaled \$78,879 and \$103,618 at December 31, 2010 and 2009, respectively.

Overpayments are fees received from funding sources which Walden has determined are not due at the time of receipt. Overpayments totaled \$32,162 and \$44,517 at December 31, 2010 and 2009, respectively.

Contributions

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 unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions 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.

Capitalization and Depreciation

Property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support 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 support. Absent donor stipulations regarding how long these 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 is 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 aggregated \$34,267 and \$42,770 for the years ended December 31, 2010 and 2009, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property and equipment, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale and any resultant gain or loss is credited or charged to earnings.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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

Significant Accounting Policies (Continued)

Compensated Absences

Accumulated unpaid vacation totaling \$137,442 and \$157,018 at December 31, 2010 and 2009, respectively, is accrued when incurred.

Revenue Recognition

▪ **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. This reimbursement to foster parents represents approximately 40% of the total foster care revenue for the years ended December 31, 2010 and 2009. The remaining 60% is used for all other operations such as providing weekly social worker case management, skills training, psychiatric and therapeutic support, and additional child activities for mentally and physically disabled, medically fragile, and “hard to place” foster children and youth.

▪ **Mental Health Services**

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

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 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, 2010 and 2009, did not meet the requirements above, therefore no amounts were recognized in the financial statements.

In-kind contributions of goods used for program services with an estimated fair value of \$-0- and \$9,796 and for the years ended December 31, 2010 and 2009, respectively, are included in grants and contributions in the consolidated statement of activities.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). Walden and Foundation are not private foundations.

The Organization uses a loss contingencies approach for evaluating uncertain tax positions and continually evaluates changes in tax law and new authoritative rulings.

Concentration of 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.

Cash and Cash Equivalents

For purposes of the consolidated statement 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 April 19, 2011, the date the consolidated financial statements were available to be issued.

Reclassification

The Organization has classified certain prior year information to conform with the current year presentation.

WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 2 - Investments:

Investments are stated at fair value, are all categorized as Level 1 in the fair value hierarchy and consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Domestic equity	\$ -	\$ 63,212
International equity	-	43,569
Fixed income	-	29,968
Total Investments	<u>\$ -</u>	<u>\$ 136,749</u>

Investment return consists of the following:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 4,203	\$ 9,912
Net realized and unrealized gain on investments	3,096	35,498
Investment management fees	(5,712)	(8,255)
Total Investment Return	<u>\$ 1,587</u>	<u>\$ 37,155</u>

Note 3 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 251,635	\$ 251,635
Leasehold improvements	22,235	22,235
Software	41,803	38,643
Subtotal	<u>315,673</u>	<u>312,513</u>
Less: Accumulated depreciation	(247,452)	(213,185)
Property and Equipment, Net	<u>\$ 68,221</u>	<u>\$ 99,328</u>

Note 4 - Note Payable:

Note payable consists of the following at December 31:

	<u>2010</u>	<u>2009</u>
CIT, secured by equipment, payable in monthly installments of \$623, no stated interest, matures June 2012.	<u>11,219</u>	<u>18,705</u>
Subtotal	11,219	18,705
Less current portion	(7,486)	(7,476)
Total Note Payable	<u>\$ 3,733</u>	<u>\$ 11,229</u>

WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 4 - Notes Payable: (Continued)

The future principal payments on the note payable are as follows:

<u>Years Ended</u> <u>December 31</u>	
2011	\$ 7,486
2012	3,733
	<u>\$ 11,219</u>

Note 5 - Temporarily Restricted

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

	<u>2010</u>	<u>2009</u>
Independent futures	\$ 154,433	\$ 267,532
Transitions	45,216	55,167
Special projects	49,050	45,246
Scholarships	22,580	20,153
Impossible	29,294	12,369
Respite	570	-
	<u>\$ 301,143</u>	<u>\$ 400,467</u>

Net assets totaling \$452,100 and \$319,402 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended December 31, 2010 and 2009, respectively.

Note 6 - Deferred Compensation Plan

The Organization sponsors an IRS 401(k) deferred compensation plan (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 Organization makes matching contributions to the Plan. The matching contribution is 25% of each employee's contribution to a maximum of \$750 per year for the year ended December 31, 2009. The matching contribution was suspended for the year ended December 31, 2010. The Organization's contributions to the Plan totaled \$-0- and \$12,588 for the years ended December 31, 2010 and 2009, respectively.

WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

Note 7 - Operating Lease Commitments

The Organization leases all of its facilities under various operating lease agreements. The leases expire at various dates through October 2015. Rent expense totaled \$436,494 and \$434,932 for the years ended December 31, 2010 and 2009, respectively.

Future minimum lease payments are as follows:

<u>Years Ended</u> <u>December 31</u>	
2011	\$ 266,037
2012	189,311
2013	159,901
2014	164,854
2015	<u>101,155</u>
	<u>\$ 881,258</u>

The Organization also leases certain office equipment under various operating lease agreements and month-to-month rentals. Rent expense totaled \$32,073 and \$33,722 for the years ended December 31, 2010 and 2009, respectively.

SUPPLEMENTARY INFORMATION

**WALDEN FAMILY SERVICES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2010**

ASSETS

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 337,770	\$ 418,186	\$ -	\$ 755,956
Investments	-		-	-
Accounts receivable, net	810,495	15,964	-	826,459
Prepaid expenses	45,397		-	45,397
Due from Foundation	66,402		(66,402)	-
Total Current Assets	<u>1,260,064</u>	<u>434,150</u>	<u>(66,402)</u>	<u>1,627,812</u>
<u>Noncurrent Assets:</u>				
Property and equipment, net	68,221	-	-	68,221
Deposits	28,934	-	-	28,934
Total Noncurrent Assets	<u>97,155</u>	<u>-</u>	<u>-</u>	<u>97,155</u>
TOTAL ASSETS	\$ <u>1,357,219</u>	\$ <u>434,150</u>	\$ <u>(66,402)</u>	\$ <u>1,724,967</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u>				
Overpayments	\$ 32,162	\$ -	\$ -	\$ 32,162
Accounts payable - foster parents	210,342	-	-	210,342
Accounts payable and accrued expenses	264,139	-	-	264,139
Accrued compensated absences	137,442	-	-	137,442
Current portion of noncurrent liabilities	7,486	-	-	7,486
Due to Walden	-	66,402	(66,402)	-
Total Current Liabilities	<u>651,571</u>	<u>66,402</u>	<u>(66,402)</u>	<u>651,571</u>
<u>Noncurrent Liabilities:</u>				
Note payable, net of current portion	3,733	-	-	3,733
Total Liabilities	<u>655,304</u>	<u>66,402</u>	<u>(66,402)</u>	<u>655,304</u>
<u>Net Assets:</u>				
Unrestricted	701,915	66,605	-	768,520
Temporarily restricted	-	301,143	-	301,143
Total Net Assets	<u>701,915</u>	<u>367,748</u>	<u>-</u>	<u>1,069,663</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,357,219</u>	\$ <u>434,150</u>	\$ <u>(66,402)</u>	\$ <u>1,724,967</u>

**WALDEN FAMILY SERVICES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2009**

ASSETS

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Current Assets:</u>				
Cash and cash equivalents	\$ 441,008	\$ 495,238	\$ -	\$ 936,246
Investments	-	136,749	-	136,749
Accounts receivable, net	727,659	28,120	-	755,779
Prepaid expenses	114,980	-	-	114,980
Due from Foundation	128,627	-	(128,627)	-
Total Current Assets	<u>1,412,274</u>	<u>660,107</u>	<u>(128,627)</u>	<u>1,943,754</u>
<u>Noncurrent Assets:</u>				
Property and equipment, net	99,328	-	-	99,328
Deposits	45,867	-	-	45,867
Total Noncurrent Assets	<u>145,195</u>	<u>-</u>	<u>-</u>	<u>145,195</u>
TOTAL ASSETS	\$ <u>1,557,469</u>	\$ <u>660,107</u>	\$ <u>(128,627)</u>	\$ <u>2,088,949</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u>				
Overpayments	\$ 44,517	\$ -	\$ -	\$ 44,517
Accounts payable - foster parents	245,011	-	-	245,011
Accounts payable and accrued expenses	314,796	-	-	314,796
Accrued compensated absences	157,018	-	-	157,018
Current portion of noncurrent liabilities	7,476	-	-	7,476
Due to Walden	-	128,627	(128,627)	-
Total Current Liabilities	<u>768,818</u>	<u>128,627</u>	<u>(128,627)</u>	<u>768,818</u>
<u>Noncurrent Liabilities:</u>				
Note payable, net of current portion	11,229	-	-	11,229
Total Liabilities	<u>780,047</u>	<u>128,627</u>	<u>(128,627)</u>	<u>780,047</u>
<u>Net Assets:</u>				
Unrestricted	777,422	131,013	-	908,435
Temporarily restricted	-	400,467	-	400,467
Total Net Assets	<u>777,422</u>	<u>531,480</u>	<u>-</u>	<u>1,308,902</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,557,469</u>	\$ <u>660,107</u>	\$ <u>(128,627)</u>	\$ <u>2,088,949</u>

**WALDEN FAMILY SERVICES
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Revenue and Support:</u>				
Foster care placements	\$ 6,138,253	\$ -	\$ -	\$ 6,138,253
Mental health service reimbursements	328,170	-	-	328,170
Grants and contributions	608,101	444,791	(609,158)	443,734
Adoption revenue	140,000	-	-	140,000
Investment return	952	635	-	1,587
Aftercare revenue	99,685	-	-	99,685
Other	31,221	-	-	31,221
Total Revenue and Support	<u>7,346,382</u>	<u>445,426</u>	<u>(609,158)</u>	<u>7,182,650</u>
<u>Expenses:</u>				
Program Services	<u>6,496,476</u>	<u>-</u>	<u>-</u>	<u>6,496,476</u>
Supporting Services:				
General and administrative	807,995	-	-	807,995
Fundraising	117,418	-	-	117,418
Contributions made	<u>-</u>	<u>609,158</u>	<u>(609,158)</u>	<u>-</u>
Total Supporting Services	<u>925,413</u>	<u>609,158</u>	<u>(609,158)</u>	<u>925,413</u>
Total Expenses	<u>7,421,889</u>	<u>609,158</u>	<u>(609,158)</u>	<u>7,421,889</u>
Change in Net Assets	(75,507)	(163,732)	-	(239,239)
Net Assets at Beginning of Year	<u>777,422</u>	<u>531,480</u>	<u>-</u>	<u>1,308,902</u>
NET ASSETS AT END OF YEAR	<u>\$ 701,915</u>	<u>\$ 367,748</u>	<u>\$ -</u>	<u>\$ 1,069,663</u>

**WALDEN FAMILY SERVICES
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<u>Revenue and Support:</u>				
Foster care placements	\$ 7,200,619	\$ -	\$ -	\$ 7,200,619
Mental health service reimbursements	359,400	-	-	359,400
Grants and contributions	715,247	765,013	(718,271)	761,989
Adoption revenue	70,000	-	-	70,000
Investment return	11,216	25,939	-	37,155
Other	55,422	-	-	55,422
Total Revenue and Support	<u>8,411,904</u>	<u>790,952</u>	<u>(718,271)</u>	<u>8,484,585</u>
<u>Expenses:</u>				
Program Services	<u>7,347,741</u>	<u>9,796</u>	<u>-</u>	<u>7,357,537</u>
Supporting Services:				
General and administrative	874,433	-	-	874,433
Fundraising	175,271	-	-	175,271
Contributions made	-	718,271	(718,271)	-
Total Supporting Services	<u>1,049,704</u>	<u>718,271</u>	<u>(718,271)</u>	<u>1,049,704</u>
Total Expenses	<u>8,397,445</u>	<u>728,067</u>	<u>(718,271)</u>	<u>8,407,241</u>
Change in Net Assets	14,459	62,885	-	77,344
Net Assets at Beginning of Year	<u>762,963</u>	<u>468,595</u>	<u>-</u>	<u>1,231,558</u>
NET ASSETS AT END OF YEAR	<u>\$ 777,422</u>	<u>\$ 531,480</u>	<u>\$ -</u>	<u>\$ 1,308,902</u>

**WALDEN FAMILY SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Federal Grants/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Health and Human Services:</u>		
Pass-Through Programs From:		
County of San Diego:		
Foster Care Title IV-E	93.658	\$ 3,069,127
Medical Assistance Program (Medicaid Title XIX)	93.778	164,085
Adoption Assistance	93.659	70,000
Chafee Foster Care Independence Program	93.674	<u>79,970</u>
Total U.S. Department of Health and Human Services		<u>3,383,182</u>
Total Expenditures of Federal Awards		<u>\$ 3,383,182</u>

Note - Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Walden Environment, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.



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**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 the financial statements of Walden Family Services as of and for the year ended December 31, 2010, and have issued our report thereon dated April 19, 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 Walden Family Services' 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 Walden Family Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Walden Family Services' 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 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 Walden Family Services' 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.

We noted certain other matters that we reported to management of Walden Family Services in a separate letter dated April 19, 2011.

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

Leaf & Cole LLP

San Diego, California
April 19, 2011



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**Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct and Material
Effect on Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

To the Board of Directors
Walden Family Services

Compliance

We have audited Walden Family Services' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 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, 2010. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Walden Family Services' management. Our responsibility is to express an opinion on Walden Family Services' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination of Walden Family Services' compliance with those requirements.

In our opinion, Walden Family Services complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

Management of Walden Family Services is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Walden Family Services' internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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, 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.

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 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, the audit committee, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Leaf & Cole LLP

San Diego, California
April 19, 2011

**WALDEN FAMILY SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued:	Unqualified		
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:	Unqualified		
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 Circular A-133, Section .510(a)?	_____ Yes	<u> X </u> No	

Identification of major programs:

<u>CDFA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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93.658	Foster care Title IV-E
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Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>300,000</u>
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Auditee qualified as low-risk auditee?	<u> X </u> Yes	_____ No
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Section II - Financial Statement Findings:

None

Section III - Federal Award Findings and Questioned Costs:

None