

**WALDEN ENVIRONMENT, INC.
AND AFFILIATE**

**Consolidated Financial Statements
and
Supplemental Information**

Years Ended December 31, 2007 and 2006

WALDEN ENVIRONMENT, INC. AND AFFILIATE
Consolidated Financial Statements and Supplemental Information
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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, 2007 and 2006, 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 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 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, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2008, on our consideration of Walden Environment, Inc.'s and Affiliate's internal control over financial reporting and on our tests of their 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 audits.

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. The accompanying schedules of expenditures of federal awards and findings and questioned costs are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are 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.

AKT LLP

Carlsbad, California
April 21, 2008

WALDEN ENVIRONMENT, INC. AND AFFILIATE**Consolidated Statements of Financial Position**

December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets:		
Cash	\$ 781,954	\$ 1,106,522
Investments	326,004	314,311
Accounts receivable, net of allowance for doubtful accounts of \$129,870 (2007) and \$151,203 (2006)	977,592	937,596
Prepaid expenses	<u>109,744</u>	<u>59,814</u>
Total Current Assets	2,195,294	2,418,243
Property and Equipment, net	90,695	81,847
Deposits	<u>31,004</u>	<u>36,865</u>
Total Assets	<u>\$ 2,316,993</u>	<u>\$ 2,536,955</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current portion of long-term debt	\$ 19,584	\$ 18,492
Overpayments	102,405	77,330
Accounts payable - foster parents	290,141	303,310
Accounts payable - other	116,309	114,111
Accrued compensated absences	144,778	161,842
Accrued expenses - other	<u>248,875</u>	<u>239,405</u>
Total Current Liabilities	922,092	914,490
Long-Term Debt, net of current portion	<u>13,688</u>	<u>33,272</u>
Total Liabilities	<u>935,780</u>	<u>947,762</u>
Net Assets		
Unrestricted	1,089,989	1,191,492
Temporarily restricted	<u>291,224</u>	<u>397,701</u>
Total Net Assets	<u>1,381,213</u>	<u>1,589,193</u>
Total Liabilities and Net Assets	<u>\$ 2,316,993</u>	<u>\$ 2,536,955</u>

See accompanying notes to consolidated financial statements.

WALDEN ENVIRONMENT, INC. AND AFFILIATE**Consolidated Statement of Activities**

Year Ended December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:			
Foster care placements	\$ 8,903,287	\$ -	\$ 8,903,287
Mental health service reimbursements	304,437	-	304,437
Grants and contributions	106,038	281,935	387,973
Other	40,542	-	40,542
Investment return	30,351	-	30,351
Net assets released from restrictions, satisfaction of program restrictions	<u>388,412</u>	<u>(388,412)</u>	<u>-</u>
Total Support and Revenue	<u>9,773,067</u>	<u>(106,477)</u>	<u>9,666,590</u>
Expenses:			
Program services	8,572,176	-	8,572,176
Supporting services			
General and administrative	1,185,429	-	1,185,429
Fundraising	<u>116,965</u>	<u>-</u>	<u>116,965</u>
Total Expenses	<u>9,874,570</u>	<u>-</u>	<u>9,874,570</u>
Decrease in Net Assets	(101,503)	(106,477)	(207,980)
Net Assets, beginning	<u>1,191,492</u>	<u>397,701</u>	<u>1,589,193</u>
Net Assets, ending	<u>\$ 1,089,989</u>	<u>\$ 291,224</u>	<u>\$ 1,381,213</u>

See accompanying notes to consolidated financial statements.

WALDEN ENVIRONMENT, INC. AND AFFILIATE**Consolidated Statement of Activities**

Year Ended December 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:			
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	<u>417,106</u>	<u>(417,106)</u>	<u>-</u>
Total Support and Revenue	<u>9,746,290</u>	<u>(48,545)</u>	<u>9,697,745</u>
Expenses:			
Program services	8,662,621	-	8,662,621
Supporting services			
General and administrative	945,310	-	945,310
Fundraising	<u>150,459</u>	<u>-</u>	<u>150,459</u>
Total Expenses	<u>9,758,390</u>	<u>-</u>	<u>9,758,390</u>
Decrease in Net Assets	(12,100)	(48,545)	(60,645)
Net Assets, beginning	<u>1,203,592</u>	<u>446,246</u>	<u>1,649,838</u>
Net Assets, ending	<u>\$ 1,191,492</u>	<u>\$ 397,701</u>	<u>\$ 1,589,193</u>

See accompanying notes to consolidated financial statements.

WALDEN ENVIRONMENT, INC. AND AFFILIATE
Consolidated Statement of Functional Expenses
Year Ended December 31, 2007

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Foster parents	\$ 3,513,731	\$ -	\$ -	\$ 3,513,731
Payroll	2,652,125	600,240	52,453	3,304,818
Payroll taxes and employee benefits	570,337	137,289	14,282	721,908
Office rents and leases	363,033	132,109	-	495,142
Consulting	290,772	14,410	3,292	308,474
Advertising - foster parents	187,267	269	-	187,536
Regional center respite care	162,649	-	-	162,649
Insurance	132,301	29,376	-	161,677
Mileage reimbursement	148,862	8,408	1,369	158,639
Other	63,290	34,368	6,161	103,819
Conferences, meetings and training	11,927	60,750	3,277	75,954
Activities and special events	47,929	-	20,690	68,619
Special projects	59,776	-	-	59,776
Office and computer maintenance and supplies	44,485	13,660	1,552	59,697
Printing	14,635	25,626	6,709	46,970
Telephone	41,343	4,957	453	46,753
Depreciation	28,290	9,230	-	37,520
Equipment rents and leases	31,604	5,198	-	36,802
Professional fees	5,918	27,399	-	33,317
Travel	13,140	17,629	1,661	32,430
Equipment and building maintenance and supplies	12,076	18,329	250	30,655
Postage	20,650	6,564	1,646	28,860
Advertising - employment	25,427	2,343	-	27,770
Licenses and fees	23,305	441	-	23,746
Utilities	21,782	1,819	-	23,601
Marketing	20,844	-	-	20,844
Memberships and dues	802	13,481	3,170	17,453
Foster parent well-being	17,100	-	-	17,100
Behavior modification rewards	15,370	-	-	15,370
Storage	6,578	8,768	-	15,346
Training - foster parents	11,075	-	-	11,075
Foster parent bonuses	8,745	-	-	8,745
Bank and payroll charges	-	7,749	-	7,749
Contract labor	1,826	5,017	-	6,843
Interest	3,182	-	-	3,182
	<u>\$ 8,572,176</u>	<u>\$ 1,185,429</u>	<u>\$ 116,965</u>	<u>\$ 9,874,570</u>

See accompanying 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
Telephone	64,615	9,594	994	75,203
Activities and special events	26,236	390	46,823	73,449
Other	57,094	9,750	2,758	69,602
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
Special projects	31,504	-	-	31,504
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
Marketing	1,652	-	-	1,652
	<u>\$ 8,662,621</u>	<u>\$ 945,310</u>	<u>\$ 150,459</u>	<u>\$ 9,758,390</u>

See accompanying notes to consolidated financial statements.

WALDEN ENVIRONMENT, INC. AND AFFILIATE**Consolidated Statements of Cash Flows**

Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Decrease in net assets	\$ (207,980)	\$ (60,645)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Gain on investments	(16,336)	(35,810)
Depreciation	37,520	33,794
(Increase) decrease in operating assets:		
Accounts receivable, net	(39,996)	256,963
Prepaid expenses	(49,930)	3,711
Increase (decrease) in operating liabilities:		
Overpayments	25,075	(28,957)
Accounts payable	(10,971)	(21,217)
Accrued expenses	(7,594)	15,295
Net Cash Provided (Used) by Operating Activities	<u>(270,212)</u>	<u>163,134</u>
Cash Flows from Investing Activities:		
Purchases of investments	(12,136)	(4,708)
Proceeds from sale of investments	16,779	10,526
Purchases of property and equipment	(46,368)	(13,392)
Decrease in deposits	5,861	4,547
Net Cash Used by Investing Activities	<u>(35,864)</u>	<u>(3,027)</u>
Cash Flows Used by Financing Activities:		
Payments on long-term debt	<u>(18,492)</u>	<u>(17,461)</u>
Net Increase (Decrease) in Cash	(324,568)	142,646
Cash, beginning	<u>1,106,522</u>	<u>963,876</u>
Cash, ending	<u>\$ 781,954</u>	<u>\$ 1,106,522</u>
Supplemental Disclosures of Cash Flow Information:		
Interest paid	<u>\$ 3,182</u>	<u>\$ 5,269</u>

See accompanying notes to consolidated financial statements.

WALDEN ENVIRONMENT, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

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, 2007 and 2006.

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.

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.

WALDEN ENVIRONMENT, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

Note 1 – Organization and Summary of Significant Accounting Policies, continued

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>2007</u>	<u>2006</u>
Furniture and equipment	\$ 216,434	\$ 669,586
Leasehold improvements	26,455	24,545
Software	<u>35,205</u>	<u>18,126</u>
	278,094	712,257
Less accumulated depreciation	<u>(187,399)</u>	<u>(630,410)</u>
	<u>\$ 90,695</u>	<u>\$ 81,847</u>

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, 2007 and 2006 was \$495,142 and \$471,196, respectively.

WALDEN ENVIRONMENT, INC. AND AFFILIATE
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

Note 3 – Operating Lease Commitments, continued

Minimum future lease payments at December 31, 2007 are as follows:

Year Ending December 31,	
2008	\$ 357,349
2009	281,577
2010	250,382
2011	7,866
Thereafter	<u>-</u>
	<u>\$ 897,174</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, 2007 and 2006 was \$36,802 and \$36,709, respectively.

Minimum future lease payments at December 31, 2007 are as follows:

Year Ending December 31,	
2008	\$ 31,667
2009	27,036
2010	10,867
Thereafter	<u>-</u>
	<u>\$ 69,570</u>

Note 4 – Investments

Investments consist of the following:

	<u>2007</u>	<u>2006</u>
Domestic equity	\$ 181,572	\$ 177,318
International equity	84,097	83,306
Fixed income	<u>60,335</u>	<u>53,687</u>
	<u>\$ 326,004</u>	<u>\$ 314,311</u>

Investment return consists of the following:

	<u>2007</u>	<u>2006</u>
Interest and dividends	\$ 18,329	\$ 16,015
Gain on investments	16,336	35,810
Investment management fees	<u>(4,314)</u>	<u>(3,592)</u>
	<u>\$ 30,351</u>	<u>\$ 48,233</u>

WALDEN ENVIRONMENT, INC. AND AFFILIATE
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

Note 5 – Long Term Debt

Long-term debt consists of the following:

	<u>2007</u>	<u>2006</u>
Union Bank of California, secured by equipment, payable in monthly installments of \$1,749 including interest at 5.75%, matures August 2009	\$ 33,272	\$ 51,764
Less current portion	<u>(19,584)</u>	<u>(18,492)</u>
	<u>\$ 13,688</u>	<u>\$ 33,272</u>

Principal maturities of long-term debt at December 31, 2007 are as follows:

<u>Year ending December 31,</u>	
2008	\$ 19,584
2009	<u>13,688</u>
	<u>\$ 33,272</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 May 19, 2008. There was no balance due on the line of credit at December 31, 2007 and 2006.

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, 2007 and 2006.

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 \$19,745 and \$20,507 for the years ended December 31, 2007 and 2006, respectively.

WALDEN ENVIRONMENT, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

Note 10 – Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2007</u>		<u>2006</u>
Employee skills	\$ 16,144	\$	21,147
Community council	5,246		36,961
Respite	7,520		-
COMPASS	132,676		207,634
Independent futures	55,927		78,099
Special projects	73,711		53,860
	<u>\$ 291,224</u>	\$	<u>397,701</u>

Note 11 – Concentration of Credit Risk

The Organizations have deposits in financial institutions in excess of federally insured limits. The Organizations manage the risk by using only high quality financial institutions.

Note 12 – Reclassifications

Certain items in the 2006 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported decrease 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.

SUPPLEMENTAL INFORMATION



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the consolidated financial statements of Walden Environment, Inc. and Affiliate as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated April 21, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Walden Environment, Inc.'s and Affiliate's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Walden Environment, Inc.'s and Affiliate's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entities' consolidated financial statements that is more than inconsequential will not be prevented or detected by the entities' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the entities' internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Walden Environment, Inc.'s and Affiliate's consolidated 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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*.

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

(continued)

This report is intended solely for the information and use of the board of directors, management, others within the Organizations, 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.

AKT LLP

Carlsbad, California
April 21, 2008



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

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

Compliance

We have audited the compliance of Walden Environment, Inc. and Affiliate with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Walden Environment, Inc.'s and Affiliate's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Walden Environment, Inc.'s and Affiliate's management. Our responsibility is to express an opinion on Walden Environment, Inc.'s and Affiliate's compliance based on our audit.

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

In our opinion, Walden Environment, Inc. and Affiliate complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Walden Environment, Inc. and Affiliate 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 Environment, Inc.'s and Affiliate's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control over compliance.

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

(continued)

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entities' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entities' internal control.

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

This report is intended solely for the information and use of the board of directors, management, others within the Organizations, 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.

ALT LLP

Carlsbad, California
April 21, 2008

WALDEN ENVIRONMENT, INC. AND AFFILIATE
Consolidated Schedule of Expenditures of Federal Awards
Year Ended December 31, 2007

Federal/Pass-Through Grantor and Program Title	Federal CFDA Number	Agency or Pass-Through Grantor No.	Expenditures
<u>U.S. Department of Health and Human Services</u>			
Foster Care Title IV-E	93.658	n/a	\$ 4,287,672
Medical Assistance Program (Medicaid Title XIX)	93.778	n/a	<u>172,589</u>
Total expenditures of federal awards			\$ <u>4,460,261</u>

Note – Basis of Presentation

This schedule of expenditures of federal awards includes the federal grant activity of Walden Environment, Inc. and Affiliate 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*.

WALDEN ENVIRONMENT, INC. AND AFFILIATE
Consolidated Schedule of Findings and Questioned Costs
Year Ended December 31, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Control deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Noncompliance material to the financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Federal Awards

Internal control over major program:		
Control deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Type of auditors' report issued on compliance for major programs	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.658	Foster Care Title IV-E

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
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SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS

None

See independent auditors' report.

WALDEN ENVIRONMENT, INC. AND AFFILIATE
Schedule I - Consolidating Statement of Financial Position
December 31, 2007

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Current Assets:				
Cash	\$ 444,564	\$ 337,390	\$ -	\$ 781,954
Investments	169,114	156,890	-	326,004
Accounts receivable, net of allowance for doubtful accounts of \$129,870	971,192	6,400	-	977,592
Prepaid expenses	109,744	-	-	109,744
Due from Foundation	<u>61,206</u>	<u>-</u>	<u>(61,206)</u>	<u>-</u>
Total Current Assets	1,755,820	500,680	(61,206)	2,195,294
Property and Equipment, net	90,695	-	-	90,695
Deposits	<u>31,004</u>	<u>-</u>	<u>-</u>	<u>31,004</u>
Total Assets	<u>\$ 1,877,519</u>	<u>\$ 500,680</u>	<u>\$ (61,206)</u>	<u>\$ 2,316,993</u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Current portion of long-term debt	\$ 19,584	\$ -	\$ -	\$ 19,584
Overpayments	102,405	-	-	102,405
Accounts payable - foster parents	290,141	-	-	290,141
Accounts payable - other	116,309	-	-	116,309
Accrued compensated absences	144,778	-	-	144,778
Accrued expenses - other	248,875	-	-	248,875
Due to Walden	<u>-</u>	<u>61,206</u>	<u>(61,206)</u>	<u>-</u>
Total Current Liabilities	922,092	61,206	(61,206)	922,092
Long-Term Debt, net of current portion	<u>13,688</u>	<u>-</u>	<u>-</u>	<u>13,688</u>
Total Liabilities	935,780	61,206	(61,206)	935,780
Net Assets				
Unrestricted	941,739	148,250	-	1,089,989
Temporarily restricted	<u>-</u>	<u>291,224</u>	<u>-</u>	<u>291,224</u>
Total Net Assets	<u>941,739</u>	<u>439,474</u>	<u>-</u>	<u>1,381,213</u>
Total Liabilities and Net Assets	<u>\$ 1,877,519</u>	<u>\$ 500,680</u>	<u>\$ (61,206)</u>	<u>\$ 2,316,993</u>

See independent auditors' report.

WALDEN ENVIRONMENT, INC. AND AFFILIATE
Schedule II - Consolidating Statement of Financial Position
December 31, 2006

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Current Assets:				
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)	-
Total Current Assets	1,878,376	596,463	(56,596)	2,418,243
Property and Equipment, net	81,847	-	-	81,847
Deposits	36,865	-	-	36,865
	<u>\$ 1,997,088</u>	<u>\$ 596,463</u>	<u>\$ (56,596)</u>	<u>\$ 2,536,955</u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
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)	-
Total Current Liabilities	914,490	56,596	(56,596)	914,490
Long-Term Debt, net of current portion	33,272	-	-	33,272
Total Liabilities	947,762	56,596	(56,596)	947,762
Net Assets				
Unrestricted	1,049,326	142,166	-	1,191,492
Temporarily restricted	-	397,701	-	397,701
Total Net Assets	1,049,326	539,867	-	1,589,193
Total Liabilities and Net Assets	<u>\$ 1,997,088</u>	<u>\$ 596,463</u>	<u>\$ (56,596)</u>	<u>\$ 2,536,955</u>

See independent auditors' report.

WALDEN ENVIRONMENT, INC. AND AFFILIATE
Schedule III - Consolidating Statement of Activities
Year Ended December 31, 2007

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Support and Revenue:				
Foster care placements	\$ 8,903,287	\$ -	\$ -	\$ 8,903,287
Mental health service reimbursements	304,437	-	-	304,437
Grants and contributions	492,872	387,973	(492,872)	387,973
Other	40,542	-	-	40,542
Investment return	25,845	4,506	-	30,351
	<u>9,766,983</u>	<u>392,479</u>	<u>(492,872)</u>	<u>9,666,590</u>
Total Support and Revenue				
Expenses:				
Program services	8,572,176	-	-	8,572,176
Supporting services				
General and administrative	1,185,429	-	-	1,185,429
Fundraising	116,965	-	-	116,965
Contributions made	-	492,872	(492,872)	-
	<u>9,874,570</u>	<u>492,872</u>	<u>(492,872)</u>	<u>9,874,570</u>
Total Expenses				
Decrease in Net Assets	(107,587)	(100,393)	-	(207,980)
Net Assets, beginning	<u>1,049,326</u>	<u>539,867</u>	<u>-</u>	<u>1,589,193</u>
Net Assets, ending	<u>\$ 941,739</u>	<u>\$ 439,474</u>	<u>\$ -</u>	<u>\$ 1,381,213</u>

WALDEN ENVIRONMENT, INC. AND AFFILIATE
Schedule IV - Consolidating Statement of Activities
Year Ended December 31, 2006

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Support and Revenue:				
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
	<u>9,699,028</u>	<u>420,039</u>	<u>(421,322)</u>	<u>9,697,745</u>
Total Support and Revenue				
Expenses:				
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)	-
	<u>9,756,906</u>	<u>422,806</u>	<u>(421,322)</u>	<u>9,758,390</u>
Total Expenses				
Decrease in Net Assets	(57,878)	(2,767)	-	(60,645)
Net Assets, beginning	<u>1,107,204</u>	<u>542,634</u>	<u>-</u>	<u>1,649,838</u>
Net Assets, ending	<u>\$ 1,049,326</u>	<u>\$ 539,867</u>	<u>\$ -</u>	<u>\$ 1,589,193</u>