

**WALDEN ENVIRONMENT, INC.  
AND AFFILIATE**

**Consolidated Financial Statements  
and  
Supplemental Information**

Years Ended December 31, 2009 and 2008

**WALDEN ENVIRONMENT, INC. AND AFFILIATE**  
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CARLSBAD 5946 Priestly Dr., Ste. 200, Carlsbad, CA 92008-8848  
phone 760.431.8440 fax 760.431.9052

## INDEPENDENT AUDITORS' REPORT

To 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, 2009 and 2008, 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 Walden Environment Inc.'s and Affiliate's 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, 2009 and 2008, 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 May 19, 2010, 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 conducted 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 consolidated 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 Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

AKT LLP

Carlsbad, California  
May 19, 2010

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

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 936,246	\$ 721,377
Investments	136,749	155,758
Accounts receivable, net of allowance for doubtful accounts of \$103,618 (2009) and \$100,542 (2008)	755,779	884,478
Prepaid expenses	<u>114,980</u>	<u>122,878</u>
Total Current Assets	1,943,754	1,884,491
Property and Equipment, net of accumulated depreciation	99,328	117,707
Deposits	<u>45,867</u>	<u>46,382</u>
Total Assets	<u>\$ 2,088,949</u>	<u>\$ 2,048,580</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Current portion of long-term debt	\$ 7,476	\$ 21,165
Overpayments	44,517	68,927
Accounts payable - foster parents	245,011	269,385
Accounts payable - other	98,759	84,777
Accrued compensated absences	157,018	172,480
Accrued expenses - other	<u>216,037</u>	<u>181,573</u>
Total Current Liabilities	768,818	798,307
Long-Term Debt, net of current portion	<u>11,229</u>	<u>18,715</u>
Total Liabilities	780,047	817,022
Net Assets:		
Unrestricted	908,435	906,530
Temporarily restricted	<u>400,467</u>	<u>325,028</u>
Total Net Assets	<u>1,308,902</u>	<u>1,231,558</u>
Total Liabilities and Net Assets	<u>\$ 2,088,949</u>	<u>\$ 2,048,580</u>

See accompanying notes to consolidated financial statements.

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

Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:			
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 restrictions, satisfaction of program restrictions	<u>319,402</u>	<u>(319,402)</u>	<u>-</u>
Total Support and Revenue	8,409,146	75,439	8,484,585
Expenses:			
Program services	7,357,537	-	7,357,537
Supporting services:			
General and administrative	874,433	-	874,433
Fundraising	<u>175,271</u>	<u>-</u>	<u>175,271</u>
Total Expenses	<u>8,407,241</u>	<u>-</u>	<u>8,407,241</u>
Increase in Net Assets	1,905	75,439	77,344
Net Assets, beginning	<u>906,530</u>	<u>325,028</u>	<u>1,231,558</u>
Net Assets, ending	<u>\$ 908,435</u>	<u>\$ 400,467</u>	<u>\$ 1,308,902</u>

See accompanying notes to consolidated financial statements.

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

Year Ended December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:			
Foster care placements	\$ 8,178,501	\$ -	\$ 8,178,501
Mental health service reimbursements	419,623	-	419,623
Grants and contributions	187,304	530,934	718,238
Other	145,015	-	145,015
Investment return	(92,620)	-	(92,620)
Net assets released from restrictions, satisfaction of program restrictions	<u>497,130</u>	<u>(497,130)</u>	<u>-</u>
Total Support and Revenue	9,334,953	33,804	9,368,757
Expenses:			
Program services	8,391,026	-	8,391,026
Supporting services:			
General and administrative	915,935	-	915,935
Fundraising	<u>211,451</u>	<u>-</u>	<u>211,451</u>
Total Expenses	<u>9,518,412</u>	<u>-</u>	<u>9,518,412</u>
Increase (Decrease) in Net Assets	(183,459)	33,804	(149,655)
Net Assets, beginning	<u>1,089,989</u>	<u>291,224</u>	<u>1,381,213</u>
Net Assets, ending	<u>\$ 906,530</u>	<u>\$ 325,028</u>	<u>\$ 1,231,558</u>

See accompanying notes to consolidated financial statements.

**WALDEN ENVIRONMENT, INC. AND AFFILIATE****Consolidated Statement of Functional Expenses**

Year Ended December 31, 2009

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Payroll	\$ 2,347,938	\$ 462,758	\$ 120,171	\$ 2,930,867
Foster parents	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
Consulting	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
Special projects	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
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 bonuses	3,265	-	-	3,265
Behavior modification rewards	1,545	-	-	1,545
Advertising - employment	554	25	100	679
	<u>\$ 7,357,537</u>	<u>\$ 874,433</u>	<u>\$ 175,271</u>	<u>\$ 8,407,241</u>

See accompanying notes to consolidated financial statements.

**WALDEN ENVIRONMENT, INC. AND AFFILIATE****Consolidated Statement of Functional Expenses**

Year Ended December 31, 2008

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Foster parents	\$ 3,250,191	\$ -	\$ -	\$ 3,250,191
Payroll	2,600,771	459,946	143,582	3,204,299
Payroll taxes and employee benefits	609,756	117,592	29,696	757,044
Office rents and leases	363,363	57,956	-	421,319
Consulting	260,240	6,951	1,845	269,036
Other	155,062	13,736	7,295	176,093
Mileage reimbursement	154,030	7,540	6,384	167,954
Insurance	126,634	25,365	-	151,999
Special projects	101,713	45,259	225	147,197
Regional center respite care	136,088	-	-	136,088
Advertising - foster parents	127,470	296	-	127,766
Telecommunications	70,188	11,431	160	81,779
Conferences, meetings and training	44,440	21,422	1,516	67,378
Activities and special events	56,437	-	9,267	65,704
Office and computer maintenance and supplies	43,474	12,696	3,840	60,010
Depreciation	38,901	11,620	-	50,521
Professional fees	13,661	29,210	-	42,871
Equipment rents and leases	32,420	6,907	-	39,327
Foster parent well-being	37,237	-	-	37,237
Travel	21,779	12,760	1,633	36,172
Licenses and fees	26,513	1,650	1,781	29,944
Postage	20,992	5,572	938	27,502
Printing	17,172	7,696	1,169	26,037
Utilities	20,359	3,259	-	23,618
Equipment and building maintenance and supplies	20,209	1,308	1,190	22,707
Memberships and dues	975	17,028	565	18,568
Storage	5,079	8,916	365	14,360
Bank and payroll charges	-	13,347	-	13,347
Training - foster parents	12,795	-	-	12,795
Marketing	1,951	10,572	-	12,523
Behavior modification rewards	9,669	-	-	9,669
Foster parent bonuses	7,908	-	-	7,908
Interest	-	4,550	-	4,550
Advertising - employment	2,675	-	-	2,675
Contract labor	874	1,350	-	2,224
	<u>\$ 8,391,026</u>	<u>\$ 915,935</u>	<u>\$ 211,451</u>	<u>\$ 9,518,412</u>

See accompanying notes to consolidated financial statements.



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

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 77,344	\$ (149,655)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
(Gain) loss on investments	(35,498)	97,506
Loss on disposal of assets	-	5,431
Depreciation	42,770	50,521
Changes in operating assets and liabilities:		
Accounts receivable, net	128,699	93,114
Prepaid expenses	7,898	(13,134)
Overpayments	(24,410)	(33,478)
Accounts payable	(10,392)	(52,208)
Accrued expenses	<u>19,002</u>	<u>(39,680)</u>
Net Cash Provided (Used) by Operating Activities	205,413	(41,583)
Cash Flows from Investing Activities:		
Purchases of investments	(79,140)	(207,958)
Proceeds from sale of investments	133,647	280,698
Purchases of property and equipment	(24,391)	(51,882)
(Increase) decrease in deposits	<u>515</u>	<u>(15,378)</u>
Net Cash Provided by Investing Activities	30,631	5,480
Cash Flows Used by Financing Activities:		
Payments on long-term debt	<u>(21,175)</u>	<u>(24,474)</u>
Net Increase (Decrease) in Cash	214,869	(60,577)
Cash, beginning	<u>721,377</u>	<u>781,954</u>
Cash, ending	\$ <u><u>936,246</u></u>	\$ <u><u>721,377</u></u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ <u><u>102</u></u>	\$ <u><u>4,550</u></u>
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Property and equipment acquired through debt financing	\$ <u><u>-</u></u>	\$ <u><u>31,082</u></u>

See accompanying notes to consolidated financial statements.

## **WALDEN ENVIRONMENT, INC. AND AFFILIATE**

### **Notes to Consolidated Financial Statements**

Years Ended December 31, 2009 and 2008

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#### **Note 1 – Organization and Summary of Significant Accounting Policies**

##### Nature of Activities

Walden Environment, Inc. (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. 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.

##### Financial Statement Presentation

The Organizations report information regarding its consolidated financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organizations may spend the funds.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

The Organizations had no permanently restricted net assets during the years ended December 31, 2009 and 2008.

##### Investments

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

##### Use of Estimates

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

##### Revenue Recognition

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

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

## WALDEN ENVIRONMENT, INC. AND AFFILIATE

### Notes to Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

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

##### Accounts Receivable and Overpayments

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

##### Property and Equipment

Property and equipment are carried at cost or, if donated, at approximate value at the date of the gift. The Organizations capitalize property and equipment with an original cost or value of \$1,000 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. The Organizations receive a substantial amount of services donated by volunteers in carrying out the Organizations' program services. The services do not meet the criteria as contributions and are, therefore, not recognized in the consolidated financial statements.

##### Fair Value Measurements

The Organizations define fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market. The Organizations apply fair value measurements to assets and liabilities that are required to be recorded at fair value under generally accepted accounting principles. Fair value measurement techniques maximize the use of observable inputs and minimize the use of unobservable inputs, and are categorized in a fair value hierarchy based on the transparency of inputs. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**WALDEN ENVIRONMENT, INC. AND AFFILIATE**  
**Notes to Consolidated Financial Statements**  
Years Ended December 31, 2009 and 2008

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of cash, receivables, and payables approximates fair value as of December 31, 2009 and 2008, due to the relative short maturities of these instruments

Subsequent Events

The Organizations have evaluated subsequent events through May 19, 2010, which is the date the consolidated financial statements were available to be issued.

**Note 2 – Property and Equipment**

Property and equipment consist of the following:

	2009		2008
Furniture and equipment	\$ 251,635	\$	282,925
Leasehold improvements	22,235		22,235
Software	38,643		36,330
	312,513		341,490
Less accumulated depreciation	(213,185)		(223,783)
	<u>\$ 99,328</u>	\$	<u>117,707</u>

**Note 3 – Investments**

Investments are all categorized as Level 1 in the fair value hierarchy and consist of the following:

	2009		2008
Domestic equity	\$ 63,212	\$	70,808
International equity	43,569		41,069
Fixed income	29,968		43,881
	<u>\$ 136,749</u>	\$	<u>155,758</u>

Investment return consists of the following:

	2009		2008
Interest and dividends	\$ 9,912	\$	9,998
Gain (loss) on investments	35,498		(97,506)
Investment management fees	(8,255)		(5,112)
	<u>\$ 37,155</u>	\$	<u>(92,620)</u>

**WALDEN ENVIRONMENT, INC. AND AFFILIATE**  
**Notes to Consolidated Financial Statements**  
Years Ended December 31, 2009 and 2008

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**Note 4 – Long-Term Debt**

Long-term debt consists of the following:

	2009	2008
Union Bank of California, secured by equipment, payable in monthly installments of \$1,749 including interest at 5.75%, matured August 2009	\$ -	\$ 13,689
CIT, secured by equipment, payable in monthly installments of \$623, no stated interest, matures June 2012	18,705	26,191
	18,705	39,880
Less current portion	(7,476)	(21,165)
	\$ 11,229	\$ 18,715

Principal maturities of long-term debt at December 31, 2009 are as follows:

Year ending December 31,	
2010	\$ 7,476
2011	7,476
2012	3,753
Thereafter	-
	\$ 18,705

**Note 5 – Line of Credit**

Walden had a line of credit of \$350,000 with Union Bank of California. Interest was payable monthly at the prime rate plus 1%. The line of credit agreement expired May 21, 2009. There was no balance due on the line of credit at December 31, 2009 and 2008.

**Note 6 – Operating Lease Commitments**

The Organizations lease all of their facilities under various operating lease agreements. The leases expire at various dates through January 2015. Total rent expense for the years ended December 31, 2009 and 2008 was \$434,932 and \$421,319, respectively.

Minimum future lease payments at December 31, 2009 are as follows:

Year Ending December 31,	
2010	\$ 393,263
2011	198,748
2012	115,098
2013	78,125
2014	80,078
Thereafter	7,296
	\$ 872,608

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, 2009 and 2008 was \$33,722 and \$39,327, respectively.

**WALDEN ENVIRONMENT, INC. AND AFFILIATE**  
**Notes to Consolidated Financial Statements**  
Years Ended December 31, 2009 and 2008

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**Note 6 – Operating Lease Commitments, continued**

Minimum future lease payments at December 31, 2009 are as follows:

Year Ending December 31,	
2010	\$ 14,587
2011	3,720
2012	3,448
2013	2,088
Thereafter	-
	<u>\$ 23,843</u>

**Note 7 – Restrictions on Net Assets**

Temporarily restricted net assets are available for the following purposes:

	2009	2008
Independent futures	\$ 267,532	\$ 188,830
Transitions	55,167	-
Special projects	45,246	67,105
Scholarships	20,153	16,947
Impossible	12,369	19,309
Kaleidacare	-	27,600
Gift baskets	-	3,600
Respite	-	999
LGBTQ	-	638
	<u>\$ 400,467</u>	<u>\$ 325,028</u>

**Note 8 – 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 both the years ended December 31, 2009 and 2008. 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.

**Note 9 – Mental Health Services**

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

## **WALDEN ENVIRONMENT, INC. AND AFFILIATE**

### **Notes to Consolidated Financial Statements**

Years Ended December 31, 2009 and 2008

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#### **Note 10 – 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 \$12,588 and \$20,344 for the years ended December 31, 2009 and 2008, respectively.

#### **Note 11 – Concentration of Credit Risk**

The Organizations maintain cash balances in several accounts at two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC). Section 136 of the Emergency Economic Stabilization Act of 2008 temporarily increases FDIC deposit insurance limits from \$100,000 to \$250,000 until December 31, 2009. The Organizations have deposits in these 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 2008 consolidated financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on previously reported change 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**



**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 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, 2009 and 2008, and have issued our report thereon dated May 19, 2010. 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 *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 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 Environment, Inc.'s and Affiliate's consolidated financial statements are free of material misstatement, we performed tests of their 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 audit committee, management, the board of directors, 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  
May 19, 2010

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

To the 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 their major federal programs for the year ended December 31, 2009. 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 their 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 their major federal programs for the year ended December 31, 2009.

**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 Walden Environment Inc.'s and Affiliate's 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 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 the audit committee, board of directors, management, 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  
May 19, 2010

**WALDEN ENVIRONMENT, INC. AND AFFILIATE**  
**Consolidated Schedule of Expenditures of Federal Awards**  
Year Ended December 31, 2009

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<u>Federal/Pass-Through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Grantor No.</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services</u>			
Foster Care Title IV-E	93.658	n/a	\$ 3,404,696
Medical Assistance Program (Medicaid Title XIX)	93.778	n/a	<u>177,335</u>
Total expenditures of federal awards			\$ <u>3,582,031</u>

**Note – Basis of Presentation**

This consolidated 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, 2009**

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**Section I – Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unqualified  
Internal control over financial reporting:  
    Significant deficiency(ies) identified? ☐yes ☒no  
    Material weakness(es) identified? ☐yes ☒no  
Noncompliance material to the financial statements noted? ☐yes ☒no

**Federal Awards**

Internal control over major program:  
    Significant deficiency(ies) identified? ☐yes ☒no  
    Material weakness(es) identified? ☐yes ☒no

Type of auditors' report issued on compliance  
for major programs Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with OMB  
Circular A-133, Section 510(a)? ☐yes ☒no

Identification of major program:

CFDA Number

93.658

Name of Federal Program or Cluster

Foster Care Title IV-E

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee  
under OMB Circular A-133, Section 530? ☒yes ☐no

**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings**

None

**WALDEN ENVIRONMENT, INC. AND AFFILIATE**  
**Schedule I - Consolidating Statement of Financial Position**  
December 31, 2009

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 441,008	\$ 495,238	\$ -	\$ 936,246
Investments	-	136,749	-	136,749
Accounts receivable, net of allowance for doubtful accounts of \$103,618	727,659	28,120	-	755,779
Prepaid expenses	114,980	-	-	114,980
Due from Foundation	128,627	-	(128,627)	-
Total Current Assets	1,412,274	660,107	(128,627)	1,943,754
Property and Equipment, net	99,328	-	-	99,328
Deposits	45,867	-	-	45,867
Total Assets	<u>\$ 1,557,469</u>	<u>\$ 660,107</u>	<u>\$ (128,627)</u>	<u>\$ 2,088,949</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities:				
Current portion of long-term debt	\$ 7,476	\$ -	\$ -	\$ 7,476
Overpayments	44,517	-	-	44,517
Accounts payable - foster parents	245,011	-	-	245,011
Accounts payable - other	98,759	-	-	98,759
Accrued compensated absences	157,018	-	-	157,018
Accrued expenses - other	216,037	-	-	216,037
Due to Walden	-	128,627	(128,627)	-
Total Current Liabilities	768,818	128,627	(128,627)	768,818
Long-Term Debt, net of current portion	11,229	-	-	11,229
Total Liabilities	780,047	128,627	(128,627)	780,047
Net Assets:				
Unrestricted	777,422	131,013	-	908,435
Temporarily restricted	-	400,467	-	400,467
Total Net Assets	777,422	531,480	-	1,308,902
Total Liabilities and Net Assets	<u>\$ 1,557,469</u>	<u>\$ 660,107</u>	<u>\$ (128,627)</u>	<u>\$ 2,088,949</u>

See independent auditors' report.

**WALDEN ENVIRONMENT, INC. AND AFFILIATE**  
**Schedule II - Consolidating Statement of Financial Position**  
December 31, 2008

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 272,137	\$ 449,240	\$ -	\$ 721,377
Investments	49,841	105,917	-	155,758
Accounts receivable, net of allowance for doubtful accounts of \$100,542	878,478	6,000	-	884,478
Prepaid expenses	122,878	-	-	122,878
Due from Foundation	<u>92,562</u>	<u>-</u>	<u>(92,562)</u>	<u>-</u>
Total Current Assets	1,415,896	561,157	(92,562)	1,884,491
Property and Equipment, net	117,707	-	-	117,707
Deposits	<u>46,382</u>	<u>-</u>	<u>-</u>	<u>46,382</u>
Total Assets	<u>\$ 1,579,985</u>	<u>\$ 561,157</u>	<u>\$ (92,562)</u>	<u>\$ 2,048,580</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities:				
Current portion of long-term debt	\$ 21,165	\$ -	\$ -	\$ 21,165
Overpayments	68,927	-	-	68,927
Accounts payable - foster parents	269,385	-	-	269,385
Accounts payable - other	84,777	-	-	84,777
Accrued compensated absences	172,480	-	-	172,480
Accrued expenses - other	181,573	-	-	181,573
Due to Walden	<u>-</u>	<u>92,562</u>	<u>(92,562)</u>	<u>-</u>
Total Current Liabilities	798,307	92,562	(92,562)	798,307
Long-Term Debt, net of current portion	<u>18,715</u>	<u>-</u>	<u>-</u>	<u>18,715</u>
Total Liabilities	817,022	92,562	(92,562)	817,022
Net Assets:				
Unrestricted	762,963	143,567	-	906,530
Temporarily restricted	<u>-</u>	<u>325,028</u>	<u>-</u>	<u>325,028</u>
Total Net Assets	<u>762,963</u>	<u>468,595</u>	<u>-</u>	<u>1,231,558</u>
Total Liabilities and Net Assets	<u>\$ 1,579,985</u>	<u>\$ 561,157</u>	<u>\$ (92,562)</u>	<u>\$ 2,048,580</u>

See independent auditors' report.



**WALDEN ENVIRONMENT, INC. AND AFFILIATE****Schedule III - Consolidating Statement of Activities**

Year Ended December 31, 2009

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Support and Revenue:				
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
Other	55,422	-	-	55,422
Investment return	<u>11,216</u>	<u>25,939</u>	<u>-</u>	<u>37,155</u>
Total Support and Revenue	8,411,904	790,952	(718,271)	8,484,585
Expenses:				
Program services	7,347,741	9,796	-	7,357,537
Supporting services:				
General and administrative	874,433	-	-	874,433
Fundraising	175,271	-	-	175,271
Contributions made	<u>-</u>	<u>718,271</u>	<u>(718,271)</u>	<u>-</u>
Total Expenses	<u>8,397,445</u>	<u>728,067</u>	<u>(718,271)</u>	<u>8,407,241</u>
Increase in Net Assets	14,459	62,885	-	77,344
Net Assets, beginning	<u>762,963</u>	<u>468,595</u>	<u>-</u>	<u>1,231,558</u>
Net Assets, ending	<u>\$ 777,422</u>	<u>\$ 531,480</u>	<u>\$ -</u>	<u>\$ 1,308,902</u>

See independent auditors' report.

**WALDEN ENVIRONMENT, INC. AND AFFILIATE****Schedule IV - Consolidating Statement of Activities**

Year Ended December 31, 2008

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Support and Revenue:				
Foster care placements	\$ 8,178,501	\$ -	\$ -	\$ 8,178,501
Mental health service reimbursements	419,623	-	-	419,623
Grants and contributions	591,297	717,202	(590,261)	718,238
Other	145,015	-	-	145,015
Investment return	<u>(37,905)</u>	<u>(54,715)</u>	<u>-</u>	<u>(92,620)</u>
Total Support and Revenue	9,296,531	662,487	(590,261)	9,368,757
Expenses:				
Program services	8,347,921	43,105	-	8,391,026
Supporting services:				
General and administrative	915,935	-	-	915,935
Fundraising	211,451	-	-	211,451
Contributions made	<u>-</u>	<u>590,261</u>	<u>(590,261)</u>	<u>-</u>
Total Expenses	<u>9,475,307</u>	<u>633,366</u>	<u>(590,261)</u>	<u>9,518,412</u>
Increase (Decrease) in Net Assets	(178,776)	29,121	-	(149,655)
Net Assets, beginning	<u>941,739</u>	<u>439,474</u>	<u>-</u>	<u>1,381,213</u>
Net Assets, ending	<u>\$ 762,963</u>	<u>\$ 468,595</u>	<u>\$ -</u>	<u>\$ 1,231,558</u>

See independent auditors' report.