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Members

American Institute of Certified Public Accountants California Society of Certified Public Accountants

Independent Auditor's Report

To the Board of Directors Walden Family Services

We have audited the accompanying consolidated statements of financial position of Walden Family Services as of December 31, 2011 and 2010, 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 Walden Family Services' 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 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 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 Family Services as of December 31, 2011 and 2010, 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 3, 2012, 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 audits.

Our audits were 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.

San Diego, California

Leaf&Cole LLP

May 3, 2012

WALDEN FAMILY SERVICES CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2011 AND 2010

ASSETS

Current Assets: (Notes 1 and 3)		<u>2011</u>		<u>2010</u>
	\$	883,490	\$	755,956
Accounts receivable, net	Φ	661,215	Ф	826,459
Prepaid expenses		26,428		45,397
Total Current Assets	_	1,571,133		1,627,812
Total Current Assets	_	1,3/1,133		1,027,812
Noncurrent Assets: (Notes 1, 2 and 4)				
Property and equipment, net		41,758		68,221
Deposits		32,330		28,934
Total Noncurrent Assets	_	74,088		97,155
TOTAL ASSETS	\$_	1,645,221	\$	1,724,967
LIABILITIES AND NET ASSETS				
Current Liabilities: (Note 1)				
	\$	41,287	\$	32,162
Accounts payable - Foster parents		165,019		210,342
Accounts payable and accrued expenses		187,768		264,139
Accrued compensated absences		115,792		137,442
Current portion of noncurrent liabilities		3,733		7,486
Total Current Liabilities	_	513,599		651,571
Noncurrent Liabilities: (Note 4)				
Note payable, net of current portion	_			3,733
Total Liabilities		513,599		655,304
Commitments (Notes 3, 6 and 7)				
Net Assets: (Notes 1 and 5)				
Unrestricted		742,363		768,520
Temporarily restricted	_	389,259		301,143
Total Net Assets	_	1,131,622		1,069,663
TOTAL LIABILITIES AND NET ASSETS	\$_	1,645,221	\$	1,724,967

WALDEN FAMILY SERVICES CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2011

	U	Inrestricted		emporarily Restricted		Total
Revenue and Support:						
Adoption revenue	\$	350,000	\$	-	\$	350,000
Aftercare revenue		220,926				220,926
Foster care placements		5,206,577		-		5,206,577
Grants and contributions		268,812		402,883		671,695
Mental health service reimbursements		105,760		-		105,760
Other income		73,808		-		73,808
Net assets released from restrictions		314,767		(314,767)		
Total Revenue and Support		6,540,650		88,116		6,628,766
Expenses: Program Services		5,726,960		-		5,726,960
Supporting Services:						
General and administrative		598,847		-		598,847
Fundraising	_	241,000	_		_	241,000
Total Supporting Services		839,847	_		_	839,847
Total Expenses	_	6,566,807	_		_	6,566,807
Change in Net Assets		(26,157)		88,116		61,959
Net Assets at Beginning of Year	_	768,520	_	301,143	_	1,069,663
NET ASSETS AT END OF YEAR	\$_	742,363	\$_	389,259	\$_	1,131,622

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

	U	Inrestricted		emporarily Restricted		Total
Revenue and Support:						
Adoption revenue	\$	140,000	\$	_	\$	140,000
Aftercare revenue		99,685		-		99,685
Foster care placements		6,138,253		-		6,138,253
Grants and contributions		90,958		352,776		443,734
Mental health service reimbursements		328,170		-		328,170
Other income		32,808		-		32,808
Net assets released from restrictions		452,100		(452,100)	_	_
Total Revenue and Support		7,281,974		(99,324)		7,182,650
Expenses: Program Services		6,496,476		-		6,496,476
Supporting Services:						
General and administrative		807,995		-		807,995
Fundraising	_	117,418				117,418
Total Supporting Services		925,413		_		925,413
Total Expenses	_	7,421,889	_		_	7,421,889
Change in Net Assets		(139,915)		(99,324)		(239,239)
Net Assets at Beginning of Year	_	908,435	_	400,467		1,308,902
NET ASSETS AT END OF YEAR	\$_	768,520	\$_	301,143	\$_	1,069,663

WALDEN FAMILY SERVICES CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2011

			Supporting Services			_	
		Program Services	General and Administrative	Fu	ndraising	_	Total
Advertising - foster parents	\$	63,583	\$ -	\$	-	\$	63,583
Advertising and marketing		236	1,592		6,862		8,690
Bank and payroll charges		-	24,640		4,510		29,150
Behavior and nurse consultants,							
human resources and accounting consultants		149,183	8,963		254		158,400
Child activities and special events		8,359	-		43,842		52,201
Conferences, meetings and training		11,887	2,150		1,364		15,401
Contract labor		23,658	50,775		14,593		89,026
Depreciation		12,331	16,985		-		29,316
Emancipated youth		105,343	-		-		105,343
Equipment and building maintenance and supplies		3,740	43		=		3,783
Equipment rents and leases		24,826	5,081		-		29,907
Foster parent recruitment bonuses		4,165	-		-		4,165
Foster parent reimbursements		2,192,062	-		=		2,192,062
Foster parent well-being		26,313	-		-		26,313
Insurance		91,631	13,109		4,176		108,916
Licenses and fees		28,981	2,927		3,767		35,675
Memberships and dues		11,634	368		3,931		15,933
Mileage reimbursement		118,102	3,886		374		122,362
Office and computer maintenance and supplies		21,638	7,890		1,099		30,627
Office rents and leases		269,040	22,441		2,160		293,641
Other		31,942	1,996		3,931		37,869
Payroll taxes and employee benefits		547,982	107,099		22,691		677,772
Postage		7,766	3,089		2,453		13,308
Printing		6,596	3,144		18,619		28,359
Professional fees		-	25,970		-		25,970
Regional center respite care		69,712	-		-		69,712
Salaries		1,841,769	278,700		106,358		2,226,827
Storage		2,264	9,605		-		11,869
Telecommunications		38,509	5,722		-		44,231
Training - foster parents		9,837	-		-		9,837
Travel		2,409	2,672		16		5,097
Utilities	_	1,462	<u> </u>			_	1,462
Total Expenses	\$	5,726,960	\$ 598,847	\$	241,000	\$	6,566,807

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

Advertising - foster parents Program General and Administrative Fundraising Total **Fundraising** Total** **Fundraising** Services** Service	
Advertising - foster parents \$ 69,680 \$ - \$ - \$ 69,680	_
Advertising - foster parents \$ 69,680 \$ - \$ - \$ 69,680	_
Advertising and marketing 587 6,364 2,420 9,371	
Bank and payroll charges 156 34,051 - 34,207	7
Behavior and nurse consultants,	
human resources and accounting consultants 208,096 15,002 861 223,959	
Conferences, meetings and training 5,826 4,644 405 10,875	
Contract labor 5,141 22,417 50 27,608	
Depreciation 12,231 22,036 - 34,267	7
Emancipated youth 60,757 - 60,757	7
Equipment and building maintenance and supplies 6,224 1,410 - 7,634	4
Equipment rents and leases 26,394 5,679 - 32,073	3
Foster parent recruitment bonuses 2,950 - 2,950)
Foster parent reimbursements 2,520,824 - 2,520,824	4
Foster parent well-being 35,362 - 35,362	2
Insurance 99,597 24,232 7,874 131,703	3
Licenses and fees 63,366 718 2,461 66,545	5
Memberships and dues 1,076 13,246 881 15,203	3
Mileage reimbursement 124,398 4,009 2,173 130,580	0
Office and computer maintenance and supplies 35,401 21,218 215 56,834	4
Office rents and leases 368,824 65,034 2,636 436,494	4
Other 38,136 7,941 991 47,068	8
Payroll taxes and employee benefits 512,817 103,024 9,672 625,513	3
Postage 11,052 3,745 38 14,835	5
Printing 11,371 1,330 3,175 15,876	6
Professional fees - 29,870 - 29,870	
Regional center respite care 85,947 - 85,947	
Salaries 2,070,489 398,114 83,174 2,551,777	
School activities and special events 17,461 - 17,461	
School supplies and foster parent kits 26,254 36 - 26,290	
Storage 3,096 9,440 - 12,536	
Telecommunications 56,606 9,151 - 65,757	
Training - foster parents 5,523 - - 5,523	
Travel 2,065 3,938 392 6,395	
Utilities 8,769 1,346 - 10,115	
Total Expenses \$ 6,496,476 \$ 807,995 \$ 117,418 \$ 7,421,889	_

WALDEN FAMILY SERVICES CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>			<u>2010</u>		
Classification Classi	¢	<i>(</i> 1,050	Ф	(220, 220)		
Change in net assets	\$	61,959	\$	(239,239)		
Adjustments to reconcile change in net assets to						
net cash provided by (used in) operating activities:		20.216		24.267		
Depreciation		29,316		34,267		
Net realized and unrealized gains on investments		-		(3,096)		
(Increase) Decrease in:		4 - 7 - 4 4		(= 0.500)		
Accounts receivable, net		165,244		(70,680)		
Prepaid expenses		18,969		69,583		
Increase (Decrease) in:						
Overpayments		9,125		(12,355)		
Accounts payable - Foster parents		(45,323)		(34,669)		
Accounts payable and accrued expenses		(76,371)		(50,657)		
Accrued compensated absences		(21,650)		(19,576)		
Net Cash Provided by (Used in) Operating Activities		141,269	_	(326,422)		
Cash Flows From Investing Activities:						
Proceeds from sale of investments		-		139,845		
Purchases of property and equipment		(2,853)		(3,160)		
(Increase) Decrease in deposits		(3,396)		16,933		
Net Cash (Used in) Provided by Investing Activities		(6,249)		153,618		
Cash Flows From Financing Activities:						
Payments on note payable		(7,486)		(7,486)		
Net Cash Used in Financing Activities		(7,486)		(7,486)		
Net Increase (Decrease) in Cash and Cash Equivalents		127,534		(180,290)		
Cash and Cash Equivalents at Beginning of Year	_	755,956	_	936,246		
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$	883,490	\$_	755,956		
Supplemental Disclosures of Noncash Investing						
and Financing Activities:						
Cash paid for interest	\$		\$	102		

Note 1 - Organization and Significant Accounting Policies:

Organization

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

Walden Environment

Walden Environment dba Walden Family Services (Walden) was formed in 1976 as a nonprofit organization to provide advocacy, out of home placement, and treatment services for children unable to remain in their own homes due to abandonment, abuse, or neglect. Walden's goal is to help stabilize children, youth and families through community-based prevention and intervention services. Walden is a treatment-level foster family and adoption agency which is engaged in the recruitment, certification, and training of foster and adoptive parents, and the placement of foster and adoptive children. Walden's funding comes primarily from federal, state, and county welfare programs. Walden provided services to 478 unique clients in 2011.

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.

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.

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

Organization (Continued)

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. Mental health services were ceased in June 2011 due to San Diego County not extending the contract to individual foster family agencies.

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.

Independent Futures Program

Walden created the Independent Futures Program in 2001 to assist pre and post emancipated Walden foster youth when they exit from foster care. It is a grant and philanthropy funded program which serves over 150 pre- and post-emancipated foster youth. Funding has made it possible for Walden to focus on the core areas of its program: education (supporting youth through high school and college with exposure, tutoring, resource management, applications); employment (resume building, interview skills, job expectations, ethical behavior, productivity and attitude); health (coping with chronic health issues that are often the consequence of early abuse and neglect); connections (adult mentors that will serve as a constant source of support for these youth who often have no other lasting relationships); financial literacy (shopping, bills, housing deposits); housing (developing a housing budget, paperwork, acquiring utilities and obtaining necessary furnishings).

San Bernardino After Care

Walden is contracted with San Bernardino County to provide aftercare services in the high desert for 18-21 year olds. 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 with such as, daily life skills, medical, dental and emotional health, mentoring, educational assistance, employment assistance, housing assistance and permanent connection support.

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

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.

Method of Accounting

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

Financial Statement Presentation

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

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 had no financial instruments at December 31, 2011 and 2010.

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

Significant Accounting Policies (Continued)

Allowance for Doubtful Accounts and Overpayments

Accounts receivable consist of program fees due from counties in Southern California that have been earned for foster children. Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. The allowance for doubtful receivables totaled \$47,674 and \$78,879 at December 31, 2011 and 2010, respectively.

Overpayments are fees received from funding sources which Walden has determined are not due at the time of receipt. Overpayments totaled \$41,287 and \$32,162 at December 31, 2011 and 2010, 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 \$29,316 and \$34,267 for the years ended December 31, 2011 and 2010, 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.

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

Significant Accounting Policies (Continued)

Compensated Absences

Accumulated unpaid vacation totaling \$115,792 and \$137,442 at December 31, 2011 and 2010, respectively, is accrued when incurred.

Revenue Recognition

Adoption Revenue

Adoption placement revenue is recorded when the billing invoice is sent to the State of California. One half is recorded at adoption signing and the remainder at the finalization stage. Walden provides training and supportive therapy for the family and child and post adoptive services.

Foster Care Placements

Walden receives foster care payments for its children from the respective counties and Regional Centers. In turn, Walden issues monthly payments to the foster families for its children. This reimbursement to foster parents represents approximately 40% of the total foster care revenue for the years ended December 31, 2011 and 2010. 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 Service Reimbursements

Walden provides mental health services and receives reimbursements per contract for its children from the respective counties. The Organization ceased mental help services in June 2011 due to San Diego County not extending the contract for individual foster family agencies.

Aftercare Revenue

Walden contracts with San Bernardino County to provide aftercare services to emancipated foster youth. Walden is reimbursed for allowable expenses and revenue is recorded at the time expenses are incurred.

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, 2011 and 2010, 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 \$28,048 and \$-0- and for the years ended December 31, 2011 and 2010, respectively, are included in grants and contributions in the consolidated statement of activities.

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. Certificates of deposits that may be redeemed without a significant penalty are considered cash and cash equivalents regardless of the maturity. The following is a composition of the combined amounts appearing in the consolidated statement of cash flows at December 31:

	<u>2011</u>	<u>2010</u>
Cash and money market funds	\$ 682,698	\$ 755,956
Certificates of deposit	200,792	-
Total Cash and Cash Equivalents	\$ 883,490	\$ 755,956

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 3, 2012, the date the consolidated financial statements were available to be issued.

Note 2 - Property and Equipment:

Property and equipment consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 253,889	\$ 251,635
Leasehold improvements	22,834	22,235
Software	41,803	41,803
Subtotal	 318,526	 315,673
Less: Accumulated depreciation	(276,768)	(247,452)
Property and Equipment, Net	\$ 41,758	\$ 68,221

Note 3 - Lines-of-Credit:

Effective January 11, 2011, Walden has a line-of-credit with Union Bank in the amount of \$100,000 with interest at the Wall Street Journal prime rate (3.25% at December 31, 2011). The line-of-credit is renewable on January 14, 2013, and is secured by a certificate of deposit (Note 1). There was no outstanding balance at December 31, 2011.

Effective, January 11, 2011, the Foundation has a line-of-credit with Union Bank in the amount of \$100,000 with interest at the Wall Street Journal prime rate (3.25% at December 31, 2011). The line-of-credit is renewable on January 14, 2013, and is secured by a certificate of deposit (Note 1). There was no outstanding balance at December 31, 2011.

Note 4 - Note Payable:

Year Ended

Note payable consists of the following at December 31:

	<u>2011</u>	<u>2010</u>
CIT, secured by equipment, payable in monthly installments of \$623,		
no stated interest, matures June 2012.	\$ 3,733	\$ 11,219
Subtotal	 3,733	 11,219
Less: Current portion	3,733	(7,486)
Total Note Payable	\$ -	\$ 3,733

Future principal payments on the note payable are as follows:

December 31		
2012	\$	3,733

Note 5 - Temporarily Restricted:

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

	<u>2011</u>	<u>2010</u>
Independent futures	\$ 189,865	\$ 154,433
Respite	49,522	570
Transitions	48,538	45,216
Special projects	47,848	49,050
I'mpossible	28,948	29,294
Scholarships	24,538	22,580
	\$ 389,259	\$ 301,143

Net assets totaling \$314,767 and \$452,100 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended December 31, 2011 and 2010, 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 was suspended for the years ended December 31, 2011 and 2010.

Note 7 - Operating Lease Commitments:

The Organization leases its facilities under various operating lease agreements. The leases expire at various dates through October 2015. Office rent and leases totaled \$293,641 and \$436,494 for the years ended December 31, 2011 and 2010, respectively.

Future minimum lease payments are as follows:

Years Ended	
December 31	
2012	\$ 216,914
2013	153,144
2014	164,880
2015	101,186
Total	\$ 636,124

The Organization also leases certain office equipment under various operating lease agreements and month-to-month rentals. Equipment rent and leases totaled \$29,907 and \$32,073 for the years ended December 31, 2011 and 2010, respectively.



WALDEN FAMILY SERVICES CONSOLIDATING SCHEDULE OF FINANCIAL POSITION DECEMBER 31, 2011

ASSETS

		Walden	<u>Foundation</u> <u>Eliminations</u>		Consolidated			
Current Assets:								
Cash and cash equivalents	\$	286,856	\$	596,634	\$	-	\$	883,490
Accounts receivable, net		637,286		23,929		-		661,215
Prepaid expenses		26,428		-		-		26,428
Intercompany receivables	_	181,473	_	-	_	(181,473)	_	-
Total Current Assets	-	1,132,043	_	620,563	-	(181,473)		1,571,133
Noncurrent Assets:								
Property and equipment, net		41,758		-		-		41,758
Deposits	_	32,330		-		-	_	32,330
Total Noncurrent Assets	-	74,088	_	-	-			74,088
TOTAL ASSETS	\$	1,206,131	\$_	620,563	\$	(181,473)	\$	1,645,221
LIABILITIES	ANI	D NET ASS	ETS					
Current Liabilities:								
Overpayments	\$	41,287	\$	-	\$	-	\$	41,287
Accounts payable - Foster parents		165,019		-		-		165,019
Accounts payable and accrued expenses		187,768		-		-		187,768
Accrued compensated absences		115,792		-		-		115,792
Current portion of noncurrent liabilities		3,733		-		-		3,733
Intercompany payables	_	-	_	181,473	_	(181,473)	_	
Total Current Liabilities	-	513,599	_	181,473	_	(181,473)		513,599
Noncurrent Liabilities:								
Note payable, net of current portion	-	-	_	-	-			
Total Liabilities	-	513,599	_	181,473		(181,473)		513,599
Net Assets:								
Unrestricted		692,532		49,831		-		742,363
Temporarily restricted		_		389,259		<u> </u>		389,259
Total Net Assets	-	692,532	_	439,090	_	-		1,131,622
TOTAL LIABILITIES AND NET ASSETS	\$	1,206,131	\$	620,563	\$	(181,473)	\$	1,645,221

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

ASSETS

		Walden	Fo	Foundation Eliminations		Consolidated		
Current Assets:								
Cash and cash equivalents	\$	337,770	\$	418,186	\$	-	\$	755,956
Accounts receivable, net		810,495		15,964		-		826,459
Prepaid expenses		45,397				-		45,397
Intercompany receivables	_	66,402				(66,402)	_	
Total Current Assets	-	1,260,064	_	434,150	_	(66,402)	-	1,627,812
Noncurrent Assets:								
Property and equipment, net		68,221		-		-		68,221
Deposits		28,934		-		-		28,934
Total Noncurrent Assets	-	97,155	_		_		-	97,155
TOTAL ASSETS	\$_	1,357,219	\$_	434,150	\$_	(66,402)	\$	1,724,967
LIABILITIES	S ANI	D NET ASS	ETS					
Current Liabilities:								
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
Intercompany payables	_	_	_	66,402		(66,402)	_	
Total Current Liabilities	-	651,571	_	66,402	_	(66,402)		651,571
Noncurrent Liabilities:								
Note payable, net of current portion	-	3,733	_	-	_	-		3,733
Total Liabilities	-	655,304	_	66,402		(66,402)	-	655,304
Net Assets:								
Unrestricted		701,915		66,605		-		768,520
Temporarily restricted	_			301,143	_		_	301,143
Total Net Assets	-	701,915	_	367,748	_	-		1,069,663
TOTAL LIABILITIES AND NET ASSETS	\$_	1,357,219	\$_	434,150	\$_	(66,402)	\$	1,724,967

WALDEN FAMILY SERVICES CONSOLIDATING SCHEDULE OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2011

		Walden		Foundation		Eliminations		Consolidated
Revenue and Support:								
Adoption revenue	\$	350,000	\$	-	\$	-	\$	350,000
Aftercare revenue		220,926						220,926
Foster care placements		5,206,577		-		-		5,206,577
Grants and contributions		-		671,695		-		671,695
Mental health service reimbursements		105,760		-		-		105,760
Other income		73,289		519		-		73,808
Total Revenue and Support	-	5,956,552		672,214				6,628,766
Expenses:								
Program Services	_	5,367,088		359,872	_			5,726,960
					-			_
Supporting Services:								
General and administrative		598,847		-		-		598,847
Fundraising	_	-		241,000	_		_	241,000
Total Supporting Services		598,847		241,000	_			839,847
	-				-			_
Total Expenses	_	5,965,935		600,872	_		_	6,566,807
					-			_
Change in Net Assets		(9,383)		71,342		-		61,959
Net Assets at Beginning of Year	-	701,915		367,748	-		_	1,069,663
NET ASSETS AT END OF YEAR	\$	692,532	\$	439,090	\$		\$_	1,131,622

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

		Walden		Foundation		liminations	Consolidated		
Revenue and Support:									
Adoption revenue	\$	140,000	\$	-	\$	-	\$	140,000	
Aftercare revenue		99,685		-		-		99,685	
Foster care placements		6,138,253		-		-		6,138,253	
Grants and contributions		608,101		444,791		(609,158)		443,734	
Mental health service reimbursements		328,170		-		-		328,170	
Other income		32,173		635		-		32,808	
Total Revenue and Support	-	7,346,382		445,426	_	(609,158)	_	7,182,650	
Expenses: Program Services	_	6,496,476			_		_	6,496,476	
Supporting Services:									
General and administrative		807,995		_		_		807,995	
Fundraising		117,418		-		-		117,418	
Contributions made		-		609,158		(609,158)		-	
Total Supporting Services	-	925,413		609,158	_	(609,158)	_	925,413	
	-						_		
Total Expenses		7,421,889		609,158		(609,158)		7,421,889	
	_				_				
Change in Net Assets		(75,507)		(163,732)		-		(239,239)	
Net Assets at Beginning of Year		777,422		531,480		-		1,308,902	
NET ASSETS AT END OF YEAR	\$	701,915	\$	367,748	\$	-	\$_	1,069,663	

WALDEN FAMILY SERVICES SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grants/Pass -Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures			
U.S. Department of Health and Human Services:					
Pass-Through Programs From:					
California Department of Health and Human Services:					
Adoption Assistance	93.659	\$ 175,000			
County of San Diego:					
Foster Care Title IV-E	93.658	278,968			
Medical Assistance Program (Medicaid Title XIX)	93.778	52,640			
County of San Bernardino:					
Foster Care Title IV-E	93.658	609,150			
Chafee Foster Care Independence Program (Aftercare)	93.674	176,762			
County of Riverside:					
Foster Care Title IV-E	93.658	325,611			
County of Orange:					
Foster Care Title IV-E	93.658	151,719			
County of Los Angeles:					
Foster Care Title IV-E	93.658	878,882	_		
Total U.S. Department of Health and Human Services		2,648,732	•		
Total Expenditures of Federal Awards		\$ 2,648,732	=		

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.



Steven W. Northcote, C.P.A. Michael S. Schreibman, C.P.A. Michael J. Zizzi, C.P.A. Julie A. Firl, C.P.A. Nicholas M. Gines, C.P.A.

Members

American Institute of Certified Public Accountants California Society of Certified Public Accountants

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, 2011, and have issued our report thereon dated May 3, 2012. 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 May 3, 2012.

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 May 3, 2012



Steven W. Northcote, C.P.A. Michael S. Schreibman, C.P.A. Michael J. Zizzi, C.P.A. Julie A. Firl, C.P.A. Nicholas M. Gines, C.P.A.

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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 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, 2011. 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, 2011.

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.

San Diego, California May 3, 2012

Leaf&Cole LLP

WALDEN FAMILY SERVICES SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2011

Section I - Summary of Auditor's Results:

<u>Financial Statements</u>	
Type of auditor's report issued:	Unqualified
Internal control over financial reporting: Material weakness(es) identified? Significant deficiencies identified not considered to be material weaknesses?	Yes X No Yes X None reported
Noncompliance material to financial statements noted?	YesX No
Federal Awards	
Type of auditor's report issued on compliance for major programs:	Unqualified
Internal control over major programs: Material weakness(es) identified? Significant deficiencies identified not considered to be material weakness(es)?	Yes X None reported Yes X No
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	YesX No
Identification of major programs:	
CDFA Number(s)	Name of Federal Program or Cluster
93.658	Foster Care Title IV-E
Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>300,000</u>
Auditee qualified as low-risk auditee?	X Yes No
Section II - Financial Statement Findings:	
<u>None</u>	
Section III – Federal Award Findings and Questioned Costs:	
None	

WALDEN FAMILY SERVICES SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2011

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