



Walden  
Family  
Services

Foster. Adopt. Support.

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**



Leaf & Cole, LLP  
*Certified Public Accountants*

**WALDEN FAMILY SERVICES  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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Leaf & Cole, LLP  
Certified Public Accountants  
A Partnership of Professional Corporations

## Independent Auditor's Report

To the Board of Directors  
Walden Family Services

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Walden Family Services, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Walden Family Services as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 18 to 21 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, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also 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 as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2018, 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 effectiveness of Walden Family Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Walden Family Services' internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California  
May 18, 2018

**WALDEN FAMILY SERVICES  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2017 AND 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
<b><u>Current Assets:</u></b> (Notes 2, 3 and 5)		
Cash and cash equivalents	\$ 1,764,922	\$ 1,407,509
Accounts receivable, net	1,842,612	1,580,375
Contributions receivable	17,200	73,032
Prepaid expenses and other assets	367,380	331,213
Total Current Assets	<u>3,992,114</u>	<u>3,392,129</u>
<b><u>Noncurrent Assets:</u></b> (Notes 2, 4 and 5)		
Property and equipment, net	31,678	47,299
Deposits	191,240	157,480
Total Noncurrent Assets	<u>222,918</u>	<u>204,779</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,215,032</u>	<u>\$ 3,596,908</u>

**LIABILITIES AND NET ASSETS**

<b><u>Current Liabilities:</u></b> (Note 2)		
Overpayments	\$ 173,252	\$ 91,602
Accounts payable - Foster parents	106,339	136,623
Accounts payable and accrued expenses	605,776	478,150
Accrued compensated absences	174,634	171,167
Total Current Liabilities	<u>1,060,001</u>	<u>877,542</u>
Total Liabilities	<u>1,060,001</u>	<u>877,542</u>
<b><u>Commitments</u></b> (Notes 5, 7 and 8)		
<b><u>Net Assets:</u></b> (Notes 2 and 6)		
Unrestricted	3,063,669	2,474,920
Temporarily restricted	91,362	244,446
Total Net Assets	<u>3,155,031</u>	<u>2,719,366</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 4,215,032</u>	<u>\$ 3,596,908</u>

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

**WALDEN FAMILY SERVICES  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>Revenue and Support:</u></b>			
Adoption revenue	\$ 525,000	\$ -	\$ 525,000
Aftercare revenue	204,346	-	204,346
Cal learn revenue	199,440	-	199,440
Foster care placements	3,647,747	-	3,647,747
Grants and contributions	786,055	507,820	1,293,875
Mental health revenue	154,533	-	154,533
Nurturing parenting program revenue	315,899	-	315,899
Other income	78,309	-	78,309
Resource family approval program revenue	12,000	-	12,000
Transitional housing program revenue	6,915,935	-	6,915,935
Visitation revenue	791,559	-	791,559
Net assets released from restrictions	660,904	(660,904)	-
Total Revenue and Support	<u>14,291,727</u>	<u>(153,084)</u>	<u>14,138,643</u>
<b><u>Expenses:</u></b>			
<b>Program Services</b>	<u>11,451,743</u>	<u>-</u>	<u>11,451,743</u>
<b>Supporting Services:</b>			
General and administrative	1,293,992	-	1,293,992
Fundraising	957,243	-	957,243
Total Supporting Services	<u>2,251,235</u>	<u>-</u>	<u>2,251,235</u>
Total Expenses	<u>13,702,978</u>	<u>-</u>	<u>13,702,978</u>
Change in Net Assets	588,749	(153,084)	435,665
Net Assets at Beginning of Year	<u>2,474,920</u>	<u>244,446</u>	<u>2,719,366</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 3,063,669</u>	<u>\$ 91,362</u>	<u>\$ 3,155,031</u>

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

**WALDEN FAMILY SERVICES  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>Revenue and Support:</u></b>			
Adoption revenue	\$ 800,000	\$ -	\$ 800,000
Aftercare revenue	181,133	-	181,133
Cal learn revenue	283,882	-	283,882
Foster care placements	4,090,317	-	4,090,317
Grants and contributions	771,340	502,775	1,274,115
Mental health revenue	13,116	-	13,116
Nurturing parenting program revenue	332,230	-	332,230
Other income	40,772	-	40,772
Transitional housing program revenue	4,798,792	-	4,798,792
Visitation revenue	762,207	-	762,207
Net assets released from restrictions	773,476	(773,476)	-
Total Revenue and Support	<u>12,847,265</u>	<u>(270,701)</u>	<u>12,576,564</u>
<b><u>Expenses:</u></b>			
<b>Program Services</b>	<u>10,127,500</u>	<u>-</u>	<u>10,127,500</u>
<b>Supporting Services:</b>			
General and administrative	889,749	-	889,749
Fundraising	1,014,513	-	1,014,513
Total Supporting Services	<u>1,904,262</u>	<u>-</u>	<u>1,904,262</u>
Total Expenses	<u>12,031,762</u>	<u>-</u>	<u>12,031,762</u>
Change in Net Assets	815,503	(270,701)	544,802
Net Assets at Beginning of Year	<u>1,659,417</u>	<u>515,147</u>	<u>2,174,564</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$ 2,474,920</u></u>	<u><u>\$ 244,446</u></u>	<u><u>\$ 2,719,366</u></u>

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

**WALDEN FAMILY SERVICES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
<b><u>Salaries and Related Expenses:</u></b>				
Salaries	\$ 3,656,044	\$ 722,500	\$ 332,900	\$ 4,711,444
Payroll taxes and employee benefits	893,370	209,798	76,477	1,179,645
Total Salaries and Related Expenses	<u>4,549,414</u>	<u>932,298</u>	<u>409,377</u>	<u>5,891,089</u>
<b><u>Nonsalary Related Expenses:</u></b>				
Advertising and marketing	19,385	6,130	9,287	34,802
Bad debt	-	94,489	-	94,489
Bank and payroll charges	-	4,159	959	5,118
Behavior and nurse consultants	108,200	-	-	108,200
Child activities and special events	12,808	-	-	12,808
Conferences, meetings and training	37,547	11,076	1,435	50,058
Contract labor	94,328	58,797	25,798	178,923
Depreciation	10,150	13,400	-	23,550
Emancipated youth	4,207,780	-	-	4,207,780
Equipment and building maintenance and supplies	3,867	473	-	4,340
Equipment rents and leases	34,019	3,739	534	38,292
Event expense	-	-	396,969	396,969
Foster parent expense - Other	16,272	-	-	16,272
Foster parent reimbursements	1,489,910	-	-	1,489,910
Insurance	104,482	19,402	6,182	130,066
Memberships, licenses and fees	58,458	9,331	1,794	69,583
Mileage reimbursement	176,709	9,186	563	186,458
Office and computer maintenance and supplies	72,056	35,301	21,585	128,942
Office rents and leases	325,937	50,186	16,835	392,958
Other	32,705	5,088	57,973	95,766
Postage and printing	20,971	3,708	5,250	29,929
Professional fees	1,100	25,535	835	27,470
Regional center respite care	23,840	-	-	23,840
Telecommunications	51,805	11,694	1,867	65,366
Total Nonsalary Related Expenses	<u>6,902,329</u>	<u>361,694</u>	<u>547,866</u>	<u>7,811,889</u>
<b>Total Expenses</b>	<b>\$ <u>11,451,743</u></b>	<b>\$ <u>1,293,992</u></b>	<b>\$ <u>957,243</u></b>	<b>\$ <u>13,702,978</u></b>

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



**WALDEN FAMILY SERVICES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
<b><u>Salaries and Related Expenses:</u></b>				
Salaries	\$ 3,426,196	\$ 498,665	\$ 368,778	\$ 4,293,639
Payroll taxes and employee benefits	838,275	141,606	74,411	1,054,292
Total Salaries and Related Expenses	<u>4,264,471</u>	<u>640,271</u>	<u>443,189</u>	<u>5,347,931</u>
<b><u>Nonsalary Related Expenses:</u></b>				
Advertising and marketing	15,638	2,102	56,329	74,069
Bad debt	-	59,729	2,500	62,229
Bank and payroll charges	-	2,765	5,959	8,724
Behavior and nurse consultants	108,495	-	-	108,495
Child activities and special events	17,034	-	-	17,034
Conferences, meetings and training	37,024	7,641	3,611	48,276
Contract labor	42,794	9,665	42,015	94,474
Depreciation	9,789	15,904	567	26,260
Emancipated youth	2,941,438	-	-	2,941,438
Equipment and building maintenance and supplies	2,283	1,303	238	3,824
Equipment rents and leases	28,235	3,000	663	31,898
Event expense	-	-	362,013	362,013
Foster parent expense- Other	18,390	-	-	18,390
Foster parent reimbursements	1,826,640	-	-	1,826,640
Insurance	101,146	14,263	7,849	123,258
Memberships, licenses and fees	54,301	11,918	6,849	73,068
Mileage reimbursement	141,995	7,088	665	149,748
Office and computer maintenance and supplies	56,259	42,570	21,554	120,383
Office rents and leases	312,138	30,815	14,640	357,593
Other	41,787	3,150	39,699	84,636
Postage and printing	20,159	2,959	5,033	28,151
Professional fees	-	27,588	-	27,588
Regional center respite care	34,106	-	-	34,106
Telecommunications	53,378	7,018	1,140	61,536
Total Nonsalary Related Expenses	<u>5,863,029</u>	<u>249,478</u>	<u>571,324</u>	<u>6,683,831</u>
<b>Total Expenses</b>	<u>\$ 10,127,500</u>	<u>\$ 889,749</u>	<u>\$ 1,014,513</u>	<u>\$ 12,031,762</u>

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

**WALDEN FAMILY SERVICES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ 435,665	\$ 544,802
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>		
Depreciation	23,550	26,260
Loss on disposal of property and equipment	-	20
<b>(Increase) Decrease in:</b>		
Accounts receivable, net	(262,237)	(33,281)
Contributions receivable	55,832	278,048
Prepaid expenses and other assets	(36,167)	(140,697)
<b>Increase (Decrease) in:</b>		
Overpayments	81,650	(17,223)
Accounts payable - Foster parents	(30,284)	(28,855)
Accounts payable and accrued expenses	127,626	96,458
Accrued compensated absences	3,467	33,561
Net Cash Provided by Operating Activities	<u>399,102</u>	<u>759,093</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Purchases of property and equipment	(7,929)	(9,576)
Payments for deposits	(33,760)	(32,166)
Net Cash Used in Investing Activities	<u>(41,689)</u>	<u>(41,742)</u>
Net Increase in Cash and Cash Equivalents	357,413	717,351
Cash and Cash Equivalents at Beginning of Year	<u>1,407,509</u>	<u>690,158</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 1,764,922</u></u>	<u><u>\$ 1,407,509</u></u>

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

**WALDEN FAMILY SERVICES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 1 - 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 therapeutic foster family and adoption agency which is engaged in the recruitment, certification and training of foster and adoptive parents, the placement of foster and adoptive children and a transition housing program for transition-age foster youth ages 18-21. Walden’s funding comes, primarily from federal, state and county welfare programs. Walden provided services to 473 unique foster care clients plus hundreds more children, youth, young adults and families through our Visitation Centers and Adoptions, Extended Care Services - After Care, Cal Learn, Transitional Housing Placement + Foster Care, Transitional Housing Program Plus and First 5 Nurturing Parenting programs.

**Walden Family Services Foundation**

Walden Family Services Foundation (Foundation) was incorporated in 2001 to solicit, receive and administer contributions for the benefit of Walden. The Foundation’s support is mainly from contributions received from businesses and individuals in Southern California. In November 2017, the Board of Directors resolved to dissolve the Foundation. Effective December 31, 2017, the Foundation was dissolved and all assets and liabilities were transferred to Walden.

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

**Adoption**

Walden Family Services is committed to every child’s need for a permanent home. In order to facilitate strong attachments, Walden provides training and supportive therapy for the family and child throughout the adoption process. Walden also provides post-adoptive services to facilitate each family’s adjustments as the child grows through each developmental stage into early adulthood.

**Foster Care**

Foster care through a licensed FFA provides an effective alternative to institutionalization and group home care that allows children to grow into healthy adult members of the community. Most of the children in Walden’s care have severe emotional and behavioral challenges as a result of past abuse and require 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. Walden’s specially trained foster families and support services enable children that otherwise would be in a group home to live with a family. Walden also provide foster homes to non-minor dependents. Under Continuum of Care Reform, 1/1/2017, foster parents have now been reapproved as resource parents and from 12/1/2017 foster youth are now placed according to their needs (level 1- 4 and Intensive Services Foster Care).

**WALDEN FAMILY SERVICES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 1 - Organization: (Continued)**

**Mental Health Services**

Under California Continuum of Care Reform (CCR) implementation, FFA's are being asked to increase access to mental health services to the foster youth in their care. On July 1, 2016 Walden contracted with San Bernardino County to provide specialty mental health services to Walden foster youth placed throughout the county. Walden's San Bernardino mental health clinic became Medi-Cal certified September 16, 2016. The clinic provides services including medication management, therapy and rehab specialist.

**Foster Care for Children with Special Health Care Needs**

Walden's Special Health Care Needs (SHCN) program enables foster children and youth with medical needs to move out of skilled nursing facilities and hospitals into highly skilled and specially trained certified foster families. Families care for children with technology-dependent conditions. Technology includes apnea monitors, nebulizers, oxygen, feeding tubes and other adaptive equipment. The program also serves infants who were drug-exposed, born premature, are failing to thrive, as well as children with juvenile diabetes and life-threatening medical conditions. Foster parents receive intensive training and support to care for children's special health care needs.

**Foster Care for Children with Developmental Disabilities**

Walden serves the needs of foster children and teens with intellectual disabilities, cerebral palsy, epilepsy, autism and other similar challenges. The goal of this program is to prevent institutionalization, prepare children and teens for maximum independence through participation in a full range of typical childhood experiences in family and community settings.

**Lesbian, Gay, Bisexual, Transgender, and Questioning (LGBTQ) Program**

This program provides education and advocacy services for LGBTQ foster youth, and training and support for child welfare providers, foster parents and birth families. The focus of this program is Walden Family Services actively recruits and educates members of the LGBT community about becoming certified foster and adoptive parents.

**First 5 Nurturing Parenting Program**

Through a contract with First 5 San Bernardino, Walden offers free Parenting Classes for teen parents with children 0-5 years old in the county using the Nurturing Parenting Curriculum. The curriculum uses an evidenced-based philosophy to help parents enhance their parenting skills.

**Cal-Learn**

Walden provides the Cal-Learn program in San Bernardino County, which provides case management services to assist pregnant and parenting teens receiving CalWORKS allowing them to attend and graduate from high school, or its equivalent. Coordinated services help teens obtain an education and access health and social services so that they can become self-sufficient adults and responsible parents.

**WALDEN FAMILY SERVICES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 1 - Organization: (Continued)**

**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 teens that have custody of their children and teens working toward reunification with their dependent children. Walden also provides these services to teen parents living with their children in a foster family.

**Resource Family Approvals**

Walden has contracted with Riverside and San Bernardino County to provide resource family approval services to County families including relative caregivers.

**San Bernardino Extended Care Services - Aftercare**

Walden contracts with San Bernardino County to provide aftercare services in the high desert for young adults ages 18-21. Through coaching and training, these young adults develop critical skills to reduce the challenges they may experience when leaving foster care. We support former foster youth in developing life skills; managing their medical, dental and emotional health; accessing educational, employment and housing assistance; and building relationships with mentors and other permanent connections.

**Transitional Housing Program + Foster Care (THP+FC)**

Walden was one of the first agencies in Southern California to offer THP+FC, a program that provides youth ages 18-21 with safe, affordable housing in a neighborhood of their choosing, comprehensive and individualized case management, life skills training, mentors, opportunities to make community connections, and goal-planning. THP+FC was introduced when AB12 passed in 2012, the state law that enables youth to stay in foster care until age 21. Walden currently operates the program through our Riverside, Los Angeles and San Diego offices.

**THP-Plus Foster Care**

Walden started to provide 5 THP Plus beds for San Diego County during 2017. THP Plus provides housing for former foster youth, ages 21-25, up to 36 months based on school attendance.

**San Bernardino County Visitation Centers**

Through a contract with San Bernardino County, Walden's Visitation Centers in San Bernardino and Victorville provide a place for birth families to have supervised visits with their children. Walden provides visitation coaches to each birth family in order to give them the tools they need to help decrease their child's length of stay in foster care. Walden provides over 800 hours of supervised visits each month.

**WALDEN FAMILY SERVICES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 2 - Significant Accounting Policies:**

**Consolidated Financial Statements**

The consolidated financial statements include the accounts of Walden Environment and Walden Family Services Foundation, which are collectively referred to as the “Organization”. All material intercompany transactions have been eliminated in consolidation.

**Accounting Method**

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 (U.S. 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.

- Unrestricted net assets – Net assets not subject to donor-imposed stipulations
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

**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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value Measurements**

Fair value accounting 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). The Organization had no financial instruments at December 31, 2017 and 2016.

**WALDEN FAMILY SERVICES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 2 - Significant Accounting Policies: (Continued)**

**Allowance for Doubtful Accounts and Overpayments**

Accounts receivable consist of fees due from counties in California that have been earned for services provided to foster youth. Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. The allowance for doubtful accounts receivable totaled \$88,065 and \$60,142 at December 31, 2017 and 2016, respectively.

Management believes that all contributions receivable were fully collectible; therefore, no allowance for doubtful contributions receivable was recorded at December 31, 2017 and 2016.

Overpayments are fees received from funding sources which Walden has determined are not due at the time of receipt. Overpayments totaled \$173,252 and \$91,602 at December 31, 2017 and 2016, respectively.

**Capitalization and Depreciation**

The Organization capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted 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. Absent donor stipulations regarding how long those 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 are 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 totaled \$23,550 and \$26,260 for the years ended December 31, 2017 and 2016, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

**Compensated Absences**

Accumulated unpaid vacation totaling \$174,634 and \$171,167 at December 31, 2017 and 2016, respectively, is accrued when incurred.

**WALDEN FAMILY SERVICES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 2 - Significant Accounting Policies: (Continued)**

**Revenue Recognition**

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 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.

Walden's revenue is generated through performance of services for government entities under various contracts for which they are paid a fixed fee or on a cost-reimbursement basis. Revenue is recognized as the services are provided and/or costs are incurred. Accounts receivable are recorded when revenue earned under a contract exceeds the cash received.

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 41% and 45% of the total foster care placements for the years ended December 31, 2017 and 2016, respectively.

**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 consolidated 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, 2017 and 2016, did not meet the requirements above, therefore no amounts were recognized in the consolidated financial statements.

In-kind contributions of goods used for program services with an estimated fair value of \$67,749 and \$58,099 for the years ended December 31, 2017 and 2016, respectively, are included in grants and contributions in the consolidated statements of activities.

**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.



**WALDEN FAMILY SERVICES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 2 - Significant Accounting Policies: (Continued)**

**Income Taxes**

Walden and Foundation are public charities and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Walden and Foundation believe that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the financial statements. Walden and Foundation are not private foundations.

The Organization's Returns of Organization Exempt from Income Tax for the years ended December 31, 2017, 2016, 2015 and 2014 are subject to examination by the Internal Revenue Service and State taxing authorities, generally the three to four years after the returns were filed.

**Concentrations**

**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.

**Accounts Receivable and Revenue**

The primary accounts receivable balance consists of amounts due from eleven government agencies for foster care and THP+FC placements totaling \$1,204,627 and \$1,172,198 which represents 65% and 74% of the total accounts receivable balance at December 31, 2017 and 2016, respectively.

The Organization received \$10,563,682 and \$8,889,109 or 75% and 71% of its revenue and support from eleven government agencies for foster care placements and THP+FC placements for the years ended December 31, 2017 and 2016, respectively.

**Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**Subsequent Events**

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 18, 2018, the date the consolidated financial statements were available to be issued and concluded that there were no events or transactions that needed to be disclosed.

**WALDEN FAMILY SERVICES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 3 - Contributions Receivable:**

Contributions receivable are due in less than one year and total \$17,200 and \$73,032 at December 31, 2017 and 2016, respectively.

**Note 4 - Property and Equipment:**

Property and equipment consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 119,076	\$ 119,076
Leasehold improvements	24,404	16,475
Software	23,340	23,340
Subtotal	<u>166,820</u>	<u>158,891</u>
Less: Accumulated depreciation	(135,142)	(111,592)
Property and Equipment, Net	<u>\$ 31,678</u>	<u>\$ 47,299</u>

**Note 5 - Line-of-Credit:**

Walden Family Services has a line-of-credit available in the amount of \$1,000,000 with Chase Bank with interest at the bank's variable rate plus 3.00%. The line-of-credit is secured by substantially all of Walden Family Service's assets. The line of credit is renewable annually on or before December 2018. There were no outstanding advances under the line-of-credit at December 31, 2017 and 2016.

**Note 6 - Temporarily Restricted Net Assets:**

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

	<u>2017</u>	<u>2016</u>
Fostering Promising Families	\$ 49,957	\$ 146,290
Mental health	30,455	8,430
Impossible	10,950	8,521
Strategic branding	-	60,123
Scholarships and job readiness	-	21,082
	<u>\$ 91,362</u>	<u>\$ 244,446</u>

Net assets totaling \$660,904 and \$773,476 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended December 31, 2017 and 2016, respectively.

**Note 7 - Deferred Compensation Plan:**

The Organization sponsors a 401(k) deferred compensation plan (the "Plan"). Employees may 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 may elect to make matching contributions to the Plan. The Organization contributed \$40,765 and \$-0- to the Plan for the years ended December 31, 2017 and 2016, respectively.

**WALDEN FAMILY SERVICES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**Note 8 - Lease Commitments:**

The Organization leases its facilities under various operating lease agreements. The leases expire at various dates through April 2025. Office rents and leases and expense under the leases totaled \$381,113 and \$343,587 for the years ended December 31, 2017 and 2016, respectively.

The Organization also leases certain office equipment under various operating lease agreements and month-to-month rentals. Equipment rents and leases under the leases totaled \$38,292 and \$31,898 for the years ended December 31, 2017 and 2016, respectively.

The following is a schedule of future minimum lease payments under the leases:

<u>Years Ended December 31</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Total</u>
2018	\$ 319,661	\$ 27,273	\$ 346,934
2019	302,895	19,875	322,770
2020	313,431	11,928	325,359
2021	324,136	8,763	332,899
2022	284,015	68	284,083
Thereafter	371,571	-	371,571
Total	<u>\$ 1,915,709</u>	<u>\$ 67,907</u>	<u>\$ 1,983,616</u>

**SUPPLEMENTARY INFORMATION**

**WALDEN FAMILY SERVICES  
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION  
DECEMBER 31, 2017**

**ASSETS**

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b><u>Current Assets:</u></b>				
Cash and cash equivalents	\$ 1,764,922	\$ -	\$ -	\$ 1,764,922
Accounts receivable, net	1,842,612	-	-	1,842,612
Contributions receivable	17,200	-	-	17,200
Prepaid expenses and other assets	367,380	-	-	367,380
Total Current Assets	<u>3,992,114</u>	<u>-</u>	<u>-</u>	<u>3,992,114</u>
<b><u>Noncurrent Assets:</u></b>				
Property and equipment, net	31,678	-	-	31,678
Deposits	191,240	-	-	191,240
Total Noncurrent Assets	<u>222,918</u>	<u>-</u>	<u>-</u>	<u>222,918</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>4,215,032</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>4,215,032</u></b>

**LIABILITIES AND NET ASSETS**

<b><u>Current Liabilities:</u></b>				
Overpayments	\$ 173,252	\$ -	\$ -	\$ 173,252
Accounts payable - Foster parents	106,339	-	-	106,339
Accounts payable and accrued expenses	605,776	-	-	605,776
Accrued compensated absences	174,634	-	-	174,634
Total Current Liabilities	<u>1,060,001</u>	<u>-</u>	<u>-</u>	<u>1,060,001</u>
Total Liabilities	<u>1,060,001</u>	<u>-</u>	<u>-</u>	<u>1,060,001</u>
<b><u>Net Assets:</u></b>				
Unrestricted	3,063,669	-	-	3,063,669
Temporarily restricted	91,362	-	-	91,362
Total Net Assets	<u>3,155,031</u>	<u>-</u>	<u>-</u>	<u>3,155,031</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>4,215,032</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>4,215,032</u></b>

**WALDEN FAMILY SERVICES  
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION  
DECEMBER 31, 2016**

**ASSETS**

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b><u>Current Assets:</u></b>				
Cash and cash equivalents	\$ 1,049,047	\$ 358,462	\$ -	\$ 1,407,509
Accounts receivable, net	1,580,375	-	-	1,580,375
Contributions receivable	70,000	3,032	-	73,032
Prepaid expenses and other assets	331,213	-	-	331,213
Intercompany receivables	223,311	-	(223,311)	-
Total Current Assets	<u>3,253,946</u>	<u>361,494</u>	<u>(223,311)</u>	<u>3,392,129</u>
<b><u>Noncurrent Assets:</u></b>				
Property and equipment, net	47,299	-	-	47,299
Deposits	157,480	-	-	157,480
Total Noncurrent Assets	<u>204,779</u>	<u>-</u>	<u>-</u>	<u>204,779</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>3,458,725</u></b>	<b>\$ <u>361,494</u></b>	<b>\$ <u>(223,311)</u></b>	<b>\$ <u>3,596,908</u></b>

**LIABILITIES AND NET ASSETS**

<b><u>Current Liabilities:</u></b>				
Overpayments	\$ 91,602	\$ -	\$ -	\$ 91,602
Accounts payable - Foster parents	136,623	-	-	136,623
Accounts payable and accrued expenses	478,150	-	-	478,150
Accrued compensated absences	171,167	-	-	171,167
Intercompany payables	-	223,311	(223,311)	-
Total Current Liabilities	<u>877,542</u>	<u>223,311</u>	<u>(223,311)</u>	<u>877,542</u>
Total Liabilities	<u>877,542</u>	<u>223,311</u>	<u>(223,311)</u>	<u>877,542</u>
<b><u>Net Assets:</u></b>				
Unrestricted	2,426,463	48,457	-	2,474,920
Temporarily restricted	154,720	89,726	-	244,446
Total Net Assets	<u>2,581,183</u>	<u>138,183</u>	<u>-</u>	<u>2,719,366</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>3,458,725</u></b>	<b>\$ <u>361,494</u></b>	<b>\$ <u>(223,311)</u></b>	<b>\$ <u>3,596,908</u></b>

**WALDEN FAMILY SERVICES  
CONSOLIDATING SCHEDULE OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Walden</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b><u>Revenue and Support:</u></b>				
Adoption revenue	\$ 525,000	\$ -	\$ -	\$ 525,000
Aftercare revenue	204,346	-	-	204,346
Cal learn revenue	199,440	-	-	199,440
Foster care placements	3,647,747	-	-	3,647,747
Grants and contributions	252,500	1,041,375	-	1,293,875
Mental health revenue	154,533	-	-	154,533
Nurturing parenting program revenue	315,899	-	-	315,899
Other income	78,128	181	-	78,309
Resource family approval program revenue	12,000	-	-	12,000
Transitional housing program revenue	6,915,935	-	-	6,915,935
Visitation revenue	791,559	-	-	791,559
Total Revenue and Support	<u>13,097,087</u>	<u>1,041,556</u>	<u>-</u>	<u>14,138,643</u>
<b><u>Expenses:</u></b>				
<b>Program Services</b>	<u>11,407,918</u>	<u>73,886</u>	<u>-</u>	<u>11,481,804</u>
<b>Supporting Services:</b>				
General and administrative	1,263,931	-	-	1,263,931
Fundraising	-	957,243	-	957,243
Total Supporting Services	<u>1,263,931</u>	<u>957,243</u>	<u>-</u>	<u>2,221,174</u>
Total Expenses	<u>12,671,849</u>	<u>1,031,129</u>	<u>-</u>	<u>13,702,978</u>
Change in Net Assets	425,238	10,427	-	435,665
Net Assets at Beginning of Year	2,581,183	138,183	-	2,719,366
Transfer of Net Assets	<u>148,610</u>	<u>(148,610)</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 3,155,031</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,155,031</u>

**WALDEN FAMILY SERVICES  
CONSOLIDATING SCHEDULE OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Walden	Foundation	Eliminations	Consolidated
<b><u>Revenue and Support:</u></b>				
Adoption revenue	\$ 800,000	\$ -	\$ -	\$ 800,000
Aftercare revenue	181,133	-	-	181,133
Cal learn revenue	283,882	-	-	283,882
Foster care placements	4,090,317	-	-	4,090,317
Grants and contributions	433,600	840,515	-	1,274,115
Mental health revenue	13,116	-	-	13,116
Nurturing parenting program revenue	332,230	-	-	332,230
Other income	40,603	169	-	40,772
Transitional housing program revenue	4,798,792	-	-	4,798,792
Visitation revenue	762,207	-	-	762,207
Total Revenue and Support	<u>11,735,880</u>	<u>840,684</u>	<u>-</u>	<u>12,576,564</u>
<b><u>Expenses:</u></b>				
<b>Program Services</b>	<u>10,057,323</u>	<u>70,177</u>	<u>-</u>	<u>10,127,500</u>
<b>Supporting Services:</b>				
General and administrative	889,749	-	-	889,749
Fundraising	-	1,014,513	-	1,014,513
Total Supporting Services	<u>889,749</u>	<u>1,014,513</u>	<u>-</u>	<u>1,904,262</u>
Total Expenses	<u>10,947,072</u>	<u>1,084,690</u>	<u>-</u>	<u>12,031,762</u>
Change in Net Assets	788,808	(244,006)	-	544,802
Net Assets at Beginning of Year	<u>1,792,375</u>	<u>382,189</u>	<u>-</u>	<u>2,174,564</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$ 2,581,183</u></u>	<u><u>\$ 138,183</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,719,366</u></u>



**WALDEN FAMILY SERVICES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grants/Pass -Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Pass Through to Subrecipient	Federal Expenditures	Total Federal Expenditures
<b><u>U.S. Department of Health and Human Services:</u></b>					
<b>Pass-Through Programs From:</b>					
<b>Temporary Assistance for Needy Families:</b>					
	93.558				
County of San Bernardino		N/A	\$ -	\$ 199,440	\$ 199,440
County of San Diego		538269 / 553682	-	78,294	78,294
Total Temporary Assistance for Needy Families			-	277,734	277,734
<b>Foster Care Title IV-E:</b>					
	93.658				
County of San Bernardino		N/A	-	1,202,690	1,202,690
County of Los Angeles		07-021-57 / 13-001-05	-	1,878,300	1,878,300
County of Riverside		N/A	-	1,334,573	1,334,573
County of San Diego		538269 / 553682	-	353,216	353,216
Imperial County		N/A	-	78,150	78,150
County of El Dorado			-	2,331	2,331
County of Santa Clara			-	3,933	3,933
County of Stanislaus		N/A	-	12,853	12,853
County of Sacramento		N/A	-	14,226	14,226
County of Ventura			-	13,760	13,760
County of Orange				138	138
Total Foster Care Title IV-E			-	4,894,170	4,894,170
<b>Adoption Assistance:</b>					
	93.659				
California Department of Health and Human Services		N/A	-	262,500	262,500
<b>Social Services Block Grant:</b>					
	93.667				
County of San Diego		538269 / 553682	-	65,566	65,566
<b>Chafee Foster Care Independence Program (Aftercare):</b>					
	93.674				
County of San Bernardino		16-229	-	126,695	126,695
Total U.S. Department of Health and Human Services			-	5,626,665	5,626,665
22					
Total Expenditures of Federal Awards			\$ -	\$ 5,626,665	\$ 5,626,665

**WALDEN FAMILY SERVICES**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**Note 1 - Basis of Presentation:**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Walden Family Services under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Walden Family Services, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Walden Family Services.

**Note 2 - Summary of Significant Accounting Policies:**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass through entity identifying numbers are presented where available.

Walden has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.



Leaf & Cole, LLP  
Certified Public Accountants  
A Partnership of Professional Corporations

**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, in accordance with the 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, the consolidated financial statements of Walden Family Services, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated May 18, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Walden Family Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Family Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Walden Family Services' internal control.

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Walden Family Services' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California  
May 18, 2018



Leaf & Cole, LLP  
Certified Public Accountants  
A Partnership of Professional Corporations

**Independent Auditor's Report on Compliance  
for the Major Program and on Internal Control Over  
Compliance Required by the Uniform Guidance**

To the Board of Directors  
Walden Family Services

**Report on Compliance for the Major Federal Program**

We have audited Walden Family Services' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Walden Family Services' major federal program for the year ended December 31, 2017. Walden Family Services' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Walden Family Services' major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of Walden Family Services' compliance.

***Opinion on the Major Federal Program***

In our opinion, Walden Family Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

**Report on Internal Control over Compliance**

Management of Walden Family Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Walden Family Services' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California  
May 18, 2018

**WALDEN FAMILY SERVICES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Section I - Summary of Auditor's Results:**

**Financial Statements**

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:	Unmodified		
Internal control over financial reporting:			
Material weaknesses identified?	_____	Yes	_____ <input checked="" type="checkbox"/> No
Significant deficiencies identified ?	_____	Yes	_____ <input checked="" type="checkbox"/> No
Noncompliance material to financial statements noted?	_____	Yes	_____ <input checked="" type="checkbox"/> No

**Federal Awards**

Type of auditor's report issued on compliance for the major program:	Unmodified		
Internal control over major program:			
Material weaknesses identified?	_____	Yes	_____ <input checked="" type="checkbox"/> No
Significant deficiencies identified?	_____	Yes	_____ <input checked="" type="checkbox"/> No
Any audit findings disclosed that are required to be reported in accordance with 2CFR Section 200.516(a)?	_____	Yes	_____ <input checked="" type="checkbox"/> No

Identification of major program:

<u>CDFA Number</u>	<u>Name of Federal Program or Cluster</u>
93.658	Foster Care Title IV-E
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
Auditee qualified as low-risk auditee?	_____ <input checked="" type="checkbox"/> Yes      _____ <input type="checkbox"/> No

**Section II - Financial Statement Findings:**

None

**Section III – Federal Award Findings and Questioned Costs:**

None