Orphan Foundation of America d/b/a Foster Care to Success

FINANCIAL REPORT

DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Orphan Foundation of America
Sterling, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Orphan Foundation of America (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the 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 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 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 2012 financial statements referred to above present fairly, in all material respects, the financial position of Orphan Foundation of America as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Orphan Foundation of America as of December 31, 2011 were audited by Witt Mares, PLC, who merged with PBGH, LLP to form PBMares, LLP as of January 1, 2013, and whose report dated May 10, 2012, expressed an unmodified opinion on those statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 March 31, 2013, on our consideration of Orphan Foundation of America, Inc.'s internal control over financial reporting and 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 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 Orphan Foundation of America's internal control over financial reporting and compliance.

PBMares, LLP

Norfolk, Virginia
March 29, 2013

FINANCIAL STATEMENTS

ORPHAN FOUNDATION OF AMERICA

Statements of Financial Position

December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 1,982,999**	$ 1,822,865
Pledges receivable	**1,083,750**	1,275,000
Grants receivable	**2,014,820**	2,598,912
Prepaid expenses	**9,577**	725
Total current assets	**5,091,146**	5,697,502
PROPERTY AND EQUIPMENT, NET		
Property and equipment	**873,967**	873,967
Less: accumulated depreciation	**(273,404)**	(238,061)
Net property and equipment	**600,563**	635,906
OTHER ASSETS		
Investments	**1,450,928**	1,280,017
Total assets	**$ 7,142,637**	$ 7,613,425

ORPHAN FOUNDATION OF AMERICA
Statements of Financial Position
December 31, 2012 and 2011

	2012	2011
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 373,768**	$ 413,842
Scholarships payable	**154,646**	276,524
Education and Training Voucher program advances	**-**	424,317
Mortgage payable, current portion	**24,745**	23,404
Total current liabilities	**553,159**	1,138,087
MORTGAGE PAYABLE, NET OF CURRENT PORTION	**468,994**	492,967
NET ASSETS		
Unrestricted	**3,867,841**	3,648,344
Temporarily restricted	**2,252,643**	2,334,027
Total net assets	**6,120,484**	5,982,371
Total liabilities and net assets	**$ 7,142,637**	$ 7,613,425

See accompanying notes.

ORPHAN FOUNDATION OF AMERICA

Statements of Activities

Years Ended December 31, 2012 and 2011

	2012			2011		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
SUPPORT AND OTHER REVENUE						
Contributions	**$ 335,697**	**$ 1,841,568**	**$ 2,177,265**	$ 251,838	$ 2,078,013	$ 2,329,851
Donated services, materials, and facilities	**2,149,573**	**-**	**2,149,573**	2,236,121	-	$ 2,236,121
Grant revenue	**11,112,218**	**-**	**11,112,218**	12,753,515	-	12,753,515
Interest, dividend and investment income	**49,218**	**150,924**	**200,142**	29,203	43,065	72,268
Net assets released from restrictions	**2,073,876**	**(2,073,876)**	**-**	2,144,187	(2,144,187)	-
Total support and other revenue	**15,720,582**	**(81,384)**	**15,639,198**	17,414,864	(23,109)	17,391,755
PROGRAM EXPENSES						
Intern program	**160,398**	**-**	**160,398**	93,972	-	93,972
Care package program	**865,666**	**-**	**865,666**	876,216	-	876,216
Training and educational grants	**13,064,995**	**-**	**13,064,995**	14,775,485	-	14,775,485
Casey Scholar program	**1,284,447**	**-**	**1,284,447**	1,335,987	-	1,335,987
Total program expenses	**15,375,505**	**-**	**15,375,505**	17,081,660	-	17,081,660
SUPPORT SERVICES						
General and administrative	**114,220**	**-**	**114,220**	81,083	-	81,083
Fundraising	**11,360**	**-**	**11,360**	7,760	-	7,760
Total support services	**125,579**	**-**	**125,579**	88,843	-	88,843
Total expenses	**15,501,085**	**-**	**15,501,085**	17,170,503	-	17,170,503
Change in net assets	**219,497**	**(81,384)**	**138,113**	244,361	(23,109)	221,252
NET ASSETS						
Beginning of year	**3,648,344**	**2,334,027**	**5,982,371**	3,403,983	2,357,136	5,761,119
End of year	**$ 3,867,841**	**$ 2,252,643**	**$ 6,120,484**	$ 3,648,344	$ 2,334,027	$ 5,982,371

See accompanying notes.

ORPHAN FOUNDATION OF AMERICA

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

		2012		2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets	**$**	**138,113**	$	221,252
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation		**35,343**		35,366
Unrealized gain on investments		**(90,273)**		(3,087)
Realized gain on investments		**(36,044)**		-
Changes in assets and liabilities:				
Pledges receivable		**191,250**		-
Grants receivable		**584,092**		1,568,945
Prepaid expenses		**(8,852)**		(725)
Accounts payable and accrued expenses		**(40,074)**		(121)
Education and Training Voucher program advances		**(424,317)**		(50,376)
Scholarships payable		**(121,878)**		(358,667)
Net cash provided by operating activities		**227,360**		1,412,587
CASH FLOWS FROM INVESTING ACTIVITIES				
Net purchases of investments		**(44,594)**		(35,892)
Purchase of property and equipment		**-**		(3,196)
Net cash used in investing activities		**(44,594)**		(39,088)
CASH FLOWS FROM FINANCING ACTIVITIES				
Principal paid on mortgage		**(22,632)**		(21,374)
Net increase in cash and equivalents		**160,134**		1,352,125
CASH AND CASH EQUIVALENTS				
Beginning of year		**1,822,865**		470,740
End of year	**$**	**1,982,999**	$	1,822,865
SUPPLEMENTAL CASH FLOW DISCLOSURE				
Cash paid for interest	**$**	**32,934**	$	34,191

See accompanying notes.

ORPHAN FOUNDATION OF AMERICA
Statement of Functional Expenses
Year Ended December 31, 2012

	Program Services					Support Services		
	Intern Program	Care Package Program	Training and Educational Services	Casey Scholar Program	Total Program Services	General and Administrative	Fundraising	Total
EXPENSES								
Salaries and payroll taxes	$ 13,729	$ -	$ 1,072,050	$ 192,657	$ 1,278,436	$ 59,929	$ 6,659	$ 1,345,024
Scholarship awards	-	-	10,514,680	799,402	11,314,082	-	-	11,314,082
In-kind donation expense	110,300	863,050	974,973	199,000	2,147,323	2,025	225	2,149,573
Insurance	-	-	7,312	1,336	8,649	176	20	8,844
Office expenses	-	30	54,263	9,135	63,428	11,568	1,285	76,281
Postage and shipping	-	561	10,132	1,856	12,549	153	17	12,719
Printing and publications	-	-	13,550	2,531	16,081	739	82	16,902
Professional services	-	-	119,012	24,017	143,029	14,831	1,648	159,507
Occupancy	-	-	57,463	10,367	67,830	699	78	68,607
Information technology	-	-	168,825	32,009	200,833	9,901	1,100	211,834
Bank and investment charges	-	-	7,332	1,390	8,722	12,336	39	21,097
Program expense	36,369	2,025	35,801	5,407	79,601	1,503	167	81,271
Depreciation	-	-	29,602	5,340	34,942	360	40	35,342
Total expenses	$ 160,398	$ 865,666	$ 13,064,995	$ 1,284,447	$ 15,375,505	$ 114,220	$ 11,360	$ 15,501,085

See accompanying notes.

ORPHAN FOUNDATION OF AMERICA

Statement of Functional Expenses

Year Ended December 31, 2011

	Program Services					Support Services		
	Intern Program	Care Package Program	Training and Educational Services	Casey Scholar Program	Total Program Services	General and Administrative	Fundraising	Total
EXPENSES								
Salaries and payroll taxes	$ -	$ -	$ 985,084	$ 192,882	$ 1,177,966	$ 48,216	$ 5,357	$ 1,231,539
Scholarship awards	-	-	12,159,334	887,396	13,046,730	-	-	13,046,730
In-kind donation expense	61,900	856,891	1,118,330	199,000	2,236,121	-	-	2,236,121
Insurance	-	-	7,017	883	7,900	346	38	8,284
Office expenses	1,405	-	102,752	6,208	110,365	2,238	249	112,852
Postage and shipping	-	-	14,103	1,511	15,614	592	66	16,272
Printing and publications	-	-	33,852	5,436	39,288	1,700	189	41,177
Professional services	-	-	89,995	9,810	99,805	3,844	427	104,076
Occupancy	-	-	65,299	8,216	73,515	3,318	369	77,202
Information technology	-	-	152,823	19,229	172,052	7,534	837	180,423
Bank and investment charges	-	-	6,075	768	6,843	11,590	38	18,471
Program expense	30,667	19,325	10,908	884	61,784	185	21	61,990
Depreciation	-	-	29,913	3,764	33,677	1,520	169	35,366
Total expenses	$ 93,972	$ 876,216	$ 14,775,485	$ 1,335,987	$ 17,081,660	$ 81,083	$ 7,760	$ 17,170,503

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Orphan Foundation of America (the Organization) is a nonprofit organization incorporated in the District of Columbia on October 28, 1981. The Organization operates under the name Foster Care to Success Foundation. The purpose of the Organization is to prepare orphaned children for adulthood, and assist them in overcoming the turmoil and lack of foundation resulting from lack of parental support. The Organization provides counseling, program activities, and services otherwise unavailable to orphaned children. Additionally, the Organization provides direct financial assistance to orphans entering colleges and other institutions of higher learning.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The financial statements report amounts separately by class of asset, when applicable. Temporarily restricted amounts are those which are stipulated by donors or other funding sources for specific operating purposes. When a restriction expires or is otherwise satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Revenues restricted by the donor or other funding source are reported as increases in unrestricted net assets if the restriction expires or is otherwise satisfied in the year in which the revenue is recognized.

Use of 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, 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.

(Continued)

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and short-term holdings in interest-bearing accounts subject to withdrawal on demand. For purposes of the Statements of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Pledges and Grants Receivable

Grants receivable are stated at amounts awarded less an allowance for doubtful accounts.

Pledges are recognized when a donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional pledges to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional promises that are expected to be collected in more than one year are reported at fair value initially and at net realizable value thereafter. Pledges that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire or are otherwise satisfied in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of restrictions. When a restriction expires or is otherwise satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Provision for Uncollectible Pledges or Grants Receivable

Provisions for uncollectible pledges or grants are determined by management based on past collection experience and estimated collectability. As of December 31, 2012 and 2011, management has determined that no allowance for uncollectible pledges and grants receivable is necessary.

The Organization also has a student loan program. Total student loan receivables as of December 31, 2012 and 2011 were $121,400 and $106,400, respectively. Historically it has been difficult for students to repay the loans, and as such the Foundation has established an allowance for the amounts outstanding for each year end.

(Continued)

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment acquired at cost in excess of $500 is capitalized. Donated assets are capitalized at fair market value at the time of donation. Depreciation of assets is calculated using the straight-line method over the estimated useful lives of the assets.

Furniture and equipment are being depreciated over 3 to 7 years. Building and improvements are being depreciated over 15 to 30 years.

Functional Allocation of Expenses

Indirect expenses are allocated to the various programs and supporting services based on the relative use by each program.

Investments

Investments, which are stated at market value, consist of bonds, mutual funds and common stock. Fair values of securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated. Realized and unrealized gains or losses are reflected in the Statements of Activities.

Investment income and gains restricted by donors are reported as an increase in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their fair values at the date of donation.

Income Taxes

The Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

(Continued)

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Concluded)

FASB Accounting Standards Codification Topic 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Foundation's management has evaluated the impact of the standard to its financial statements. Management is not aware of any material uncertain tax positions, and has not accrued the effect of any uncertain tax positions as of December 31, 2012. With few exceptions, the Organization is no longer subject to income tax examinations by federal, state, or local tax authorities for years before 2009. The Organization recognizes interest and penalties incurred, if any, related to income tax positions as other interest expense and penalties expense, respectively.

NOTE 2. CONCENTRATION RISK

The Organization receives a substantial amount of its support from state governments (pass-through of federal funds). A significant reduction in the level of this support, if this were to occur, may have a significant effect on its programs and activities.

The Organization maintains its cash and cash equivalents with financial institutions which, at times, exceed federally insured limits. In addition, the Organization maintains investments with investment companies which exceed Securities Investor Protection Corporation (SIPC) insured limits.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2012	2011
Building and improvements	**$ 763,824**	$ 763,824
Furniture and equipment	**110,143**	110,143
	873,967	873,967
Less: accumulated depreciation	**273,404**	238,061
	$ 600,563	$ 635,906

Depreciation expense for the years ending December 31, 2012 and 2011 was $35,343 and $35,366, respectively.

NOTE 4. INVESTMENTS

Investments, at cost and estimated fair value, consist of the following:

	Cost	Market Value	Unrealized Appreciation (Depreciation)
December 31, 2012			
Corporate bonds	**$ 480,419**	**$ 513,251**	**$ 32,832**
Mutual funds	**89,877**	**99,444**	**9,567**
Common stock	**626,484**	**838,233**	**211,749**
	$ 1,196,780	**$ 1,450,928**	**$ 254,148**
December 31, 2011			
Corporate bonds	$ 343,661	$ 369,668	$ 26,007
Mutual funds	89,877	85,300	(4,577)
Common stock	685,714	825,049	139,335
	$ 1,119,252	$ 1,280,017	$ 160,765

NOTE 5. FAIR VALUE MEASUREMENTS

The Foundation has established and documented processes and methodologies for determining the fair values of investments on a recurring basis in accordance with FASB ASC 820. Under FASB ASC 820, a financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy established by FASB ASC 820 are defined as follows:

Level 1 Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 Valuation is based on unobservable inputs that are significant to the fair value measurement.

(Continued)

NOTE 5. FAIR VALUE MEASUREMENTS (Concluded)

A description of the valuation techniques applied to the Foundation's investments measured at fair value on a recurring basis follows.

Corporate bonds. Corporate bonds traded on a national securities exchange are stated at the last reported sales price on the day of valuation. To the extent these bonds are actively traded and valuation adjustments are not applied, they are categorized in level 1 of the fair value hierarchy.

Mutual funds Valued at the net asset value (NAV) of shares held by the Foundation at year end. To the extent these funds are actively traded and valuation adjustments are not applied, they are categorized in level 1 of the fair value hierarchy. Certain mutual funds maintained outside of the organization are categorized as level 2.

Equity securities (common stock). Securities traded on a national securities exchange are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized in level 1 of the fair value hierarchy.

Assets measured at fair value on a recurring basis are summarized below:

Assets	**Level 1**	**Level 2**	**Level 3**	**Assets at Fair Value**
As of 12/31/12				
Corporate bonds	**$ 513,251**	**$ -**	**$ -**	**$ 513,251**
Mutual funds	**81,007**	**18,437**	**-**	**99,444**
Equity securities	**838,233**	**-**	**-**	**838,233**
Total	**$1,432,491**	**$ 18,437**	**$ -**	**$ 1,450,928**

Assets	Level 1	Level 2	Level 3	Assets at Fair Value
As of 12/31/11				
Corporate bonds	$ 369,668	$ -	$ -	$ 369,668
Mutual funds	68,771	16,529	-	85,300
Equity securities	825,049	-	-	825,049
Total	$1,263,488	$ 16,529	$ -	$ 1,280,017

NOTE 6. TAX DEFERRED ANNUITY PLAN

The Organization sponsors a qualified 403(b) Tax Deferred Annuity Plan (Plan). All employees who are over age 21 and with three months of service are eligible to participate in the Plan. At the discretion of the Board of Directors, the Organization may make contributions to the Plan at a rate to be determined annually by the Organization. No such contributions were made during the years ended December 31, 2012 and 2011.

NOTE 7. EDUCATION AND TRAINING VOUCHER PROGRAM

The Organization contracts with various states to administer their Chafee Education and Training Vouchers (ETV) Program which provides assistance to qualified ETV students. Funds flow through the Organization to the ETV students from various states. During the year ended December 31, 2012, the Organization contracted with Alabama, Arizona, Arkansas, Colorado, Maryland, Missouri, New York, North Carolina, and Ohio. Association with the state of Arkansas was discontinued during 2012.

Included in current liabilities at December 31, 2012 and 2011 are ETV cash deposits from the state of New York of $0 and $424,317, respectively.

NOTE 8. MORTGAGE PAYABLE

During December 2005, the Organization entered into a note payable with a financial institution to purchase an office condominium. The note was for $626,000 and calls for monthly principal and interest payments at a fixed rate of 6.4 percent per annum with monthly payments of $4,630. Interest expense was $32,934 and $34,191 for the years ended December 31, 2012 and 2011, respectively. This note matures December 14, 2020 and is secured by the property and equipment of the Organization.

Future maturities under this note as of December 31, 2012 are as follows:

2013	$ 24,745
2014	26,591
2015	28,344
2016	30,212
2017	32,204
Thereafter	351,643
Total	$ 493,739

NOTE 9. TEMPORARILY RESTRICTED NET ASSETS

Included in temporarily restricted net assets as of December 31, 2012 and 2011 is $2,252,643 and $2,334,027, respectively, relating to funds restricted by donors.

Temporarily restricted net assets consist of the following:

	2012	2011
Burtrez J. Morrow Trust	**$ 756,287**	$ 698,644
Glory Foundation	**69,431**	55,161
Jack Kent Cooke Foundation	**17,005**	13,650
Casey Family Scholars	**1,409,920**	1,566,572
Total temporary restricted net assets	**$ 2,252,643**	$ 2,334,027

NOTE 10. SUBSEQUENT EVENTS

The Organization has evaluated all events subsequent to the statement of financial position date of December 31, 2012 through March 29, 2013, which is the date these financial statements were available to be issued. The Organization has determined that there are no subsequent events that require disclosure pursuant to the FASB Accounting Standards Codification, except as noted below:

On March 1, 2013, the Federal government underwent automatic budget cuts affecting all Federal programs. These budget cuts will be in effect for the remainder of the Federal fiscal year, which ends on September 30, 2013. As a result, the Department of Health and Human Services may see decreased availability of funds.

Although this decreased availability of funds will not affect the collectability of amounts receivable at the report date, the Organization is susceptible to decreased funding in future periods. Due to the uncertain nature of the Department of Health and Human Services responses, an estimate cannot be made as to the timing or extent of the effect that this event may have on the Organization, its financial position, or its operations.

SUPPLEMENTARY INFORMATION

ORPHAN FOUNDATION OF AMERICA

Schedule of Expenditures of Federal Awards - Schedule I

Year Ended December 31, 2012

Federal Granting Agency/Grant Program	Catalog Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Health and Human Services:			
Pass - Through From States			
Chafee Education and Training Vouchers*			
Alabama	93.599	4147	$ 380,058
Arizona	93.599	3630-150510	1,243,661
Arkansas	93.599	4600014220	334,715
Colorado	93.599	521238437	1,191,669
Maryland	93.599	SSA/OHPS-10-001	880,765
Missouri	93.599	C306033001	1,381,115
North Carolina	93.599	00121-09	368,115
New York	93.599	C025057	3,840,495
Ohio	93.599	G-89-06-1215	1,671,568
Total			**11,292,161**

* Major Program

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Orphan Foundation of America and is presented on the cash 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements. In addition, expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations* wherein certain types of expenditures are not allowable or are limited as to reimbursements.

1. Summary of Auditor's Results

Financial Statements

- An unqualified opinion was issued on the financial statements.
- Internal control over financial reporting:
  - No material weakness(es) were identified.
  - No significant deficiency(s) identified that are not considered to be material weaknesses.
  - No noncompliance material to the financial statements was noted.

Federal Awards

- Internal control over major programs:
  - No material weakness(es) were identified.
  - No significant deficiency(s) identified that are not considered to be material weaknesses.
  - An unqualified opinion was issued on compliance for major programs.
- The audit did not disclose any audit findings required to be reported in accordance with Section 510(a) of Circular A-133.
- The audit did not disclose any audit findings required to be reported.
- Major programs are:
  - Chafee Education and Training Vouchers CFDA #93.599
- The dollar threshold used to distinguish between Type A and Type B programs is $352,859.
- The auditee did not qualify as a low-risk auditee.

2. Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance with GAGAS

A. NONE.

3. Findings and Questioned Costs for Federal Awards

A. NONE.

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*

The Board of Directors
Orphan Foundation of America
Sterling, Virginia

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 financial statements of Orphan Foundation of America (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Orphan Foundation of America's 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Orphan Foundation of America's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 Organization'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 Orphan Foundation of America's 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 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*.

The financial statements of Orphan Foundation of America as of December 31, 2011 were audited by Witt Mares, PLC, who merged with PBGH, LLP to form PBMares, LLP as of January 1, 2013, and whose report dated May 10, 2012, expressed an unmodified opinion on those statements. However, providing an opinion on compliance with those provisions was not an objective of the audit, and accordingly, Witt Mares, PLC did not express such an opinion. The results of the tests disclosed no instances of noncompliance or other matters that were 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.

PBMares, LLP

Norfolk, Virginia
March 29, 2013

PBMares

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Directors
Orphan Foundation of America
Sterling, Virginia

Report on Compliance for Each Major Federal Program

We have audited Orphan Foundation of America's 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 Orphan Foundation of America's major federal programs for the year ended December 31, 2012. Orphan Foundation of America's 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 the requirements of law, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Orphan Foundation of America's major federal programs 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 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 Orphan Foundation of America's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Orphan Foundation of America's compliance.

Opinion on Each Major Federal Program

In our opinion, Orphan Foundation of America 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, 2012.

Report on Internal Control Over Compliance

Management of Orphan Foundation of America 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 Orphan Foundation of America's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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 Orphan Foundation of America's 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 or 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Other Matters

The financial statements of Orphan Foundation of America as of December 31, 2011 were audited by Witt Mares, PLC, who merged with PBGH, LLP to form PBMares, LLP as of January 1, 2013, and whose report dated May 10, 2012, expressed an unmodified opinion on those statements. However, providing an opinion on the effectiveness of internal control over compliance with those provisions was not an objective of the audit, and accordingly, Witt Mares, PLC did not express such an opinion. Witt Mares, PLC did not identify any deficiencies in internal control over compliance that were considered to be material weaknesses. However, material weaknesses may have existed that were not identified.

PBMares, LLP

Norfolk, Virginia
March 29, 2013