Orphan Foundation of America

FINANCIAL REPORT

DECEMBER 31, 2010 AND 2009

TABLE OF CONTENTS

WITT MARES
THE POWER TO MAKE A DIFFERENCE. THE PEOPLE TO MAKE IT COUNT.℠

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Orphan Foundation of America
Sterling, Virginia

We have audited the accompanying statements of financial position of Orphan Foundation of America, a nonprofit organization, as of December 31, 2010 and 2009, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orphan Foundation of America, as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2011, on our consideration of Orphan Foundation of America's 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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.

Witt Mares, PLC

Fairfax, Virginia
June 16, 2011

FINANCIAL STATEMENTS

ORPHAN FOUNDATION OF AMERICA

Statements of Financial Position

December 31, 2010 and 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 470,740**	$ 915,720
Pledges receivable	**1,275,000**	1,475,000
Grants receivable	**4,167,857**	3,060,384
Prepaid expenses	**-**	10,000
Total current assets	**5,913,597**	5,461,104
PROPERTY AND EQUIPMENT, NET		
Property and equipment	**870,772**	870,772
Less: accumulated depreciation	**(202,696)**	(169,212)
Net property and equipment	**668,076**	701,560
OTHER ASSETS		
Investments	**1,241,038**	1,107,879
Total assets	**$ 7,822,711**	$ 7,270,543

ORPHAN FOUNDATION OF AMERICA

Statements of Financial Position

December 31, 2010 and 2009

		2010		2009
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	**$**	**413,963**	$	459,683
Scholarships payable		**635,191**		247,218
Education and Training Voucher Program Advances		**474,693**		666,667
Mortgage payable, current portion		**21,957**		20,433
Total current liabilities		**1,545,804**		1,394,001
MORTGAGE PAYABLE, NET OF CURRENT PORTION		**515,788**		537,776
NET ASSETS				
Unrestricted		**3,403,983**		3,025,264
Temporarily restricted		**2,357,136**		2,313,502
Total net assets		**5,761,119**		5,338,766
Total liabilities and net assets	**$**	**7,822,711**	$	7,270,543

See accompanying notes.

ORPHAN FOUNDATION OF AMERICA

Statements of Activities

Years Ended December 31, 2010 and 2009

	2010			2009		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
SUPPORT AND OTHER REVENUE						
Contributions	**$ 400,272**	**$ 2,092,887**	**$ 2,493,159**	$ 1,088,731	$ 1,661,618	$ 2,750,349
Donated services, materials, and facilities	**1,668,217**	**-**	**1,668,217**	1,832,154	-	1,832,154
Grant revenue	**11,767,410**	**-**	**11,767,410**	10,898,202	-	10,898,202
Interest, dividend and investment income	**89,304**	**99,889**	**189,193**	91,375	81,877	173,252
Other income	**-**	**-**	**-**	1,640	-	1,640
Net assets released from restrictions	**2,149,142**	**(2,149,142)**	**-**	1,899,560	(1,899,560)	-
Total support and other revenue	**16,074,345**	**43,634**	**16,117,979**	15,811,662	(156,065)	15,655,597
PROGRAM EXPENSES						
Intern Program	**134,853**	**-**	**134,853**	152,358	-	152,358
Care Package Program	**704,017**	**-**	**704,017**	948,699	-	948,699
Training and Educational Services	**13,421,655**	**-**	**13,421,655**	12,340,419	-	12,340,419
Casey Scholar Program	**1,360,815**	**-**	**1,360,815**	1,629,617	-	1,629,617
Total program expenses	**15,621,340**	**-**	**15,621,340**	15,071,093	-	15,071,093
SUPPORT SERVICES						
General and administrative	**68,193**	**-**	**68,193**	172,231	-	172,231
Fundraising	**6,093**	**-**	**6,093**	14,897	-	14,897
Total support services	**74,286**	**-**	**74,286**	187,128	-	187,128
Total expenses	**15,695,626**	**-**	**15,695,626**	15,258,221	-	15,258,221
Change in net assets	**378,719**	**43,634**	**422,353**	553,441	(156,065)	397,376
NET ASSETS						
Beginning of year	**3,025,264**	**2,313,502**	**5,338,766**	2,471,823	2,469,567	4,941,390
End of year	**$ 3,403,983**	**$ 2,357,136**	**$ 5,761,119**	$ 3,025,264	$ 2,313,502	$ 5,338,766

See accompanying notes.

ORPHAN FOUNDATION OF AMERICA
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	**$ 422,353**	$ 397,376
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	**33,485**	30,892
Unrealized gain on investments	**(68,411)**	(121,975)
Changes in assets and liabilities:		
Pledges receivable	**200,000**	-
Grants receivable	**(1,107,473)**	(877,785)
Prepaid expenses	**10,000**	-
Accounts payable and accrued expenses	**(45,720)**	35,315
Education and Training Voucher Program Advances	**(191,974)**	25,984
Scholarships payable	**387,973**	32,280
Net cash used in operating activities	**(359,767)**	(477,913)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of investments	**(64,749)**	(392,852)
Purchase of property and equipment	**-**	(25,932)
Net cash used in investing activities	**(64,749)**	(418,784)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal on mortgage paid	**(20,464)**	(18,684)
Net decrease in cash and equivalents	**(444,980)**	(915,381)
CASH AND CASH EQUIVALENTS		
Beginning of year	**915,720**	1,831,101
End of year	**$ 470,740**	$ 915,720
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid for interest	**$ 35,103**	$ 36,883

See accompanying notes.

ORPHAN FOUNDATION OF AMERICA

Statement of Functional Expenses

Year Ended December 31, 2010

	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	$ -	$ -	$ 1,149,413	$ 188,687	$ 1,338,100	$ 37,981	$ 4,221	$ 1,380,302
Scholarship awards	-	-	10,981,542	846,586	11,828,128	-	-	11,828,128
In-kind donation expense	81,122	673,231	654,864	259,000	1,668,217	-	-	1,668,217
Insurance	-	-	9,920	1,098	11,018	366	41	11,425
Office expenses	-	-	63,278	7,165	70,443	1,548	172	72,163
Postage and shipping	-	18,340	14,472	1,592	34,404	531	59	34,994
Printing and publications	-	3,470	27,670	3,138	34,278	1,046	116	35,440
Professional services	-	-	196,260	22,829	219,089	7,286	810	227,185
Occupancy	-	-	97,383	11,268	108,651	3,213	357	112,221
Information technology	-	-	146,101	12,942	159,043	1,380	153	160,576
Bank and investment charges	-	-	10,028	1,164	11,192	13,758	43	24,993
Program expense	53,731	8,976	41,362	2,022	106,091	365	41	106,497
Depreciation	-	-	29,362	3,324	32,686	719	80	33,485
Total expenses	$ 134,853	$ 704,017	$ 13,421,655	$ 1,360,815	$ 15,621,340	$ 68,193	$ 6,093	$ 15,695,626

See accompanying notes.

ORPHAN FOUNDATION OF AMERICA

Statement of Functional Expenses

Year Ended December 31, 2009

	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	$ -	$ 9,781	$ 1,238,139	$ 175,458	$ 1,423,378	$ 89,592	$ 9,955	$ 1,522,925
Scholarship awards	-	-	9,743,915	1,102,860	10,846,775	-	-	10,846,775
In-kind donation expense	77,718	926,844	568,142	259,000	1,831,704	-	-	1,831,704
Insurance	-	-	8,467	595	9,062	489	54	9,605
Office expenses	611	415	150,000	9,332	160,358	7,217	802	168,377
Postage and shipping	-	581	25,019	2,080	27,680	1,711	190	29,581
Printing and publications	-	5,446	38,819	5,829	50,094	2,317	257	52,668
Professional services	-	-	257,800	32,809	290,609	15,958	1,773	308,340
Occupancy	-	-	64,152	5,614	69,766	4,616	513	74,895
Information technology	-	-	167,033	30,704	197,737	39,573	978	238,288
Bank and investment charges	-	-	1,062	99	1,161	7,469	9	8,639
Program expense	74,029	5,632	51,410	2,922	133,993	1,385	154	135,532
Depreciation	-	-	26,461	2,315	28,776	1,904	212	30,892
Total expenses	$ 152,358	$ 948,699	$ 12,340,419	$ 1,629,617	$ 15,071,093	$ 172,231	$ 14,897	$ 15,258,221

See accompanying notes.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Orphan Foundation of America (the Foundation) 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 Foundation 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 Foundation provides counseling, program activities, and services otherwise unavailable to orphaned children. Additionally, the Foundation 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 Foundation 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 Foundation 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 Foundation 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, 2010 and 2009, management has determined that no allowance for uncollectible pledges and grants receivable is necessary.

The Foundation also has a student loan program. Total student loan receivables as of December 31, 2010 and 2009 were $102,500 and $107,500, respectively. Historically it has been difficult for students to repay the loans, and as such the Foundation has an 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 Foundation 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, 2010. With few exceptions, the Foundation is no longer subject to income tax examinations by federal, state, or local tax authorities for years before 2007. The Foundation recognizes interest and penalties incurred, if any, related to income tax positions as other interest expense and penalties expense, respectively.

Reclassifications

Certain reclassifications were made to the prior year financial statements to conform to the 2010 presentation. These reclassifications had no effect on the previously reported change in net assets.

NOTE 2. CONCENTRATION RISK

The Foundation 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 Foundation maintains its cash and cash equivalents with financial institutions which, at times, exceed federally insured limits. In addition, the Foundation 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:

	2010	2009
Building and improvements	**$ 763,824**	$ 763,824
Furniture and equipment	**106,948**	106,948
	870,772	870,772
Less: accumulated depreciation	**202,696**	169,212
	$ 668,076	$ 701,560

Depreciation expense for the years ending December 31, 2010 and 2009 was $33,485 and $30,892, respectively.

NOTE 4. INVESTMENTS

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

	Cost	**Market Value**	**Unrealized Appreciation (Depreciation)**
December 31, 2010			
Bonds	**$ 357,271**	**$ 371,224**	**$ 13,953**
Mutual funds	**165,970**	**170,065**	**4,095**
Common stock	**615,700**	**699,749**	**84,049**
	$ 1,138,941	**$ 1,241,038**	**$ 102,097**
December 31, 2009			
Bonds	$ 368,792	$ 377,603	$ 8,811
Mutual funds	119,189	108,999	(10,190)
Common stock	570,238	621,277	51,039
	$ 1,058,219	$ 1,107,879	$ 49,660

(Continued)

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.

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.

U.S. government securities. U.S. government securities are normally valued using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. Certain securities are valued principally using dealer quotations and are categorized in level 1.

U.S. agency securities. U.S. agency securities are comprised of two main categories consisting of agency issued debt and mortgage pass-throughs. Agency debt securities are generally valued in a manner similar to U.S. government securities and are typically categorized in level 1.

(Continued)

NOTE 5. FAIR VALUE MEASUREMENTS (Concluded)

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 12/31/10				
Corporate bonds	**$ 262,041**	**$ -**	**$ -**	**$ 262,041**
U.S. Government securities	**70,478**	**-**	**-**	**70,748**
U.S. Agency securities	**38,705**	**-**	**-**	**38,705**
Mutual funds	**152,375**	**17,690**	**-**	**170,065**
Equity securities	**699,749**	**-**	**-**	**699,749**
Total	**$1,223,348**	**$ 17,690**	**$ -**	**$ 1,241,038**

Assets	Level 1	Level 2	Level 3	Assets at Fair Value
As of 12/31/09				
Corporate bonds	$ 134,975	$ -	$ -	$ 134,975
U.S. Government securities	93,476	-	-	93,476
U.S. Agency securities	149,152	-	-	149,152
Mutual funds	93,445	15,554	-	108,999
Equity securities	621,277	-	-	621,277
Total	$1,092,325	$ 15,554	$ -	$ 1,107,879

NOTE 6. TAX DEFERRED ANNUITY PLAN

The Foundation 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 Foundation may make contributions to the Plan at a rate to be determined annually by the Foundation. No such contributions were made during the years ended December 31, 2010 and 2009.

NOTE 7. EDUCATION AND TRAINING VOUCHER PROGRAM

The Foundation 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 Foundation to the ETV students from various states. The Foundation has contracted with Alabama, Arkansas, Colorado, Indiana, Maryland, Missouri, North Carolina, Ohio, and New York.

Included in current liabilities at December 31, 2010 and 2009 are ETV cash deposits from the state of New York of $474,693 and $666,667, respectively.

NOTE 8. LINE OF CREDIT

The Foundation maintained an $800,000 line of credit with a financial institution, which was due on demand. During the year ended December 31, 2010 the Foundation elected not to renew its line of credit due to current cash position and related bank fees. Interest on the credit line was based on the bank’s prime rate plus 0.45%, with a floor of 5.00%. The personal property assets of the Foundation served as collateral. The amount outstanding on the line was $0 as of December 31, 2009.

NOTE 9. MORTGAGE PAYABLE

During December 2005, the Foundation 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 $35,103 and $36,883 for the years ended December 31, 2010 and 2009, respectively. This note matures December 14, 2020 and is secured by the property and equipment of the Foundation.

(Continued)

NOTE 9. MORTGAGE PAYABLE (Concluded)

Future maturities under this note as of December 31, 2010 are as follows:

2011	$ 21,957
2012	23,404
2013	24,947
2014	26,591
2015	28,344
Thereafter	412,502
Total	$ 537,745

NOTE 10. TEMPORARILY RESTRICTED NET ASSETS

Included in temporarily restricted net assets as of December 31, 2010 and 2009 is $2,357,136 and $2,313,502, respectively, relating to funds restricted by donors for specific programs.

Temporarily restricted net assets consist of the following:

	2010	2009
Burtrez J. Morrow Trust	**$ 667,084**	$ 614,406
Glory Foundation	**34,959**	-
Jack Kent Cooke Foundation	**35,125**	-
Casey Family Scholars	**1,619,968**	1,699,096
Total temporary restricted net assets	**$ 2,357,136**	$ 2,313,502

NOTE 11. SUBSEQUENT EVENTS

As of March 1, 2011, the Foundation entered into a grant contract with the state of Arizona for the Chafee Education and Training Vouchers program. The new contract is effective for the period March 1, 2011 through February 28, 2012. The total reimbursable funding for the contract period is $846,000.

The Foundation has reviewed subsequent events through June 16, 2011, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

ORPHAN FOUNDATION OF AMERICA

Schedule of Expenditures of Federal Awards - Schedule I

Year Ended December 31, 2010

Federal Granting Agency/Grant Program	Catalog Number	Expenditures
U.S. Department of Health and Human Services:		
Pass - Through From States		
Chafee Education and Training Vouchers*		
Alabama	93.599	$ 691,413
Arkansas	93.599	351,269
Colorado	93.599	453,623
Indiana	93.599	1,266,338
Maryland	93.599	1,631,348
Missouri	93.599	1,182,920
North Carolina	93.599	1,019,637
New York	93.599	3,001,548
Ohio	93.599	882,190
Total		10,480,286
Chafee Foster Care Independence Program		
North Carolina	93.674	277,117
Total		**$ 10,757,403**

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 preparation of, the basic financial statements.

* Major Program

ORPHAN FOUNDATION OF AMERICA

Schedule of Findings and Questioned Costs-Schedule II

Year Ended December 31, 2010

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 $356,000.
- 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.

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 the financial statements of Orphan Foundation of America, as of and for the year ended December 31, 2010, and have issued our report thereon dated June 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Orphan Foundation of America's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Orphan Foundation of America's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Orphan Foundation of America's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Orphan Foundation of America in a separate letter dated June 16, 2011.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal and state award agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Witt Mares, PLC

Fairfax, Virginia
June 16, 2011

WITT MARES
THE POWER TO MAKE A DIFFERENCE. THE PEOPLE TO MAKE IT COUNT.℠

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

The Board of Directors
Orphan Foundation of America
Sterling, Virginia

Compliance

We have audited Orphan Foundation of America's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2010. Orphan Foundation of America's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements referred to above is the responsibility of Orphan Foundation of America's management. Our responsibility is to express an opinion on Orphan Foundation of America's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Government, 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 identified in the accompanying schedule of findings and questioned costs 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. Our audit does not provide a legal determination of Orphan Foundation of America's compliance with those requirements.

In our opinion, Orphan Foundation of America complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of Orphan Foundation of America is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered Orphan Foundation of America's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal and state award agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Witt Mares, PLC

Fairfax, Virginia
June 16, 2011