

# *Orphan Foundation of America*

FINANCIAL REPORT  
DECEMBER 31, 2011 AND 2010

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## 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, 2011 and 2010, 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, 2011 and 2010, 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 May 10, 2012, 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 basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 basic 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 basic financial statements as a whole.

*Witt Mares, PLC*

Fairfax, Virginia  
May 10, 2012

## **FINANCIAL STATEMENTS**

# ORPHAN FOUNDATION OF AMERICA

## Statements of Financial Position

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,822,865	\$ 470,740
Pledges receivable	1,275,000	1,275,000
Grants receivable	2,598,912	4,167,857
Prepaid expenses	<u>725</u>	<u>-</u>
Total current assets	<u>5,697,502</u>	<u>5,913,597</u>
<b>PROPERTY AND EQUIPMENT, NET</b>		
Property and equipment	873,967	870,772
Less: accumulated depreciation	<u>(238,061)</u>	<u>(202,696)</u>
Net property and equipment	<u>635,906</u>	<u>668,076</u>
<b>OTHER ASSETS</b>		
Investments	<u>1,280,017</u>	<u>1,241,038</u>
Total assets	<u>\$ 7,613,425</u>	<u>\$ 7,822,711</u>

# ORPHAN FOUNDATION OF AMERICA

## Statements of Financial Position

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 413,842	\$ 413,963
Scholarships payable	276,524	635,191
Education and Training Voucher Program Advances	424,317	474,693
Mortgage payable, current portion	<u>23,404</u>	<u>21,957</u>
Total current liabilities	<u>1,138,087</u>	<u>1,545,804</u>
<b>MORTGAGE PAYABLE, NET OF CURRENT PORTION</b>	<u>492,967</u>	<u>515,788</u>
<b>NET ASSETS</b>		
Unrestricted	3,648,344	3,403,983
Temporarily restricted	<u>2,334,027</u>	<u>2,357,136</u>
Total net assets	<u>5,982,371</u>	<u>5,761,119</u>
Total liabilities and net assets	<u>\$ 7,613,425</u>	<u>\$ 7,822,711</u>

See accompanying notes.

**ORPHAN FOUNDATION OF AMERICA**  
**Statements of Activities**  
**Years Ended December 31, 2011 and 2010**

	2011		2010		Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
<b>SUPPORT AND OTHER REVENUE</b>					
Contributions	\$ 251,838	\$ 2,078,013	\$ 2,329,851	\$ 400,272	\$ 2,493,159
Donated services, materials, and facilities	2,236,121	-	2,236,121	1,668,217	1,668,217
Grant revenue	12,753,515	-	12,753,515	11,767,410	11,767,410
Interest, dividend and investment income	29,203	43,065	72,268	89,304	189,193
Net assets released from restrictions	2,144,187	(2,144,187)	-	2,149,142	-
Total support and other revenue	<u>17,414,864</u>	<u>(23,109)</u>	<u>17,391,755</u>	<u>16,074,345</u>	<u>16,117,979</u>
<b>PROGRAM EXPENSES</b>					
Intern Program	93,972	-	93,972	134,853	134,853
Care Package Program	876,216	-	876,216	704,017	704,017
Training and Educational Services	14,775,485	-	14,775,485	13,421,655	13,421,655
Casey Scholar Program	1,335,987	-	1,335,987	1,360,815	1,360,815
Total program expenses	<u>17,081,660</u>	<u>-</u>	<u>17,081,660</u>	<u>15,621,340</u>	<u>15,621,340</u>
<b>SUPPORT SERVICES</b>					
General and administrative	81,083	-	81,083	68,193	68,193
Fundraising	7,760	-	7,760	6,093	6,093
Total support services	<u>88,843</u>	<u>-</u>	<u>88,843</u>	<u>74,286</u>	<u>74,286</u>
Total expenses	<u>17,170,503</u>	<u>-</u>	<u>17,170,503</u>	<u>15,695,626</u>	<u>15,695,626</u>
Change in net assets	244,361	(23,109)	221,252	378,719	422,353
<b>NET ASSETS</b>					
Beginning of year	3,403,983	2,357,136	5,761,119	3,025,264	5,338,766
End of year	<u>\$ 3,648,344</u>	<u>\$ 2,334,027</u>	<u>\$ 5,982,371</u>	<u>\$ 3,403,983</u>	<u>\$ 5,761,119</u>

See accompanying notes.

**ORPHAN FOUNDATION OF AMERICA**

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 221,252	\$ 422,353
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	35,366	33,485
Unrealized gain on investments	(3,087)	(68,411)
Changes in assets and liabilities:		
Pledges receivable	-	200,000
Grants receivable	1,568,945	(1,107,473)
Prepaid expenses	(725)	10,000
Accounts payable and accrued expenses	(121)	(45,720)
Education and Training Voucher Program Advances	(50,376)	(191,974)
Scholarships payable	(358,667)	387,973
	<b>1,412,587</b>	<b>(359,767)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchases of investments	(35,892)	(64,749)
Purchase of property and equipment	(3,196)	-
	<b>(39,088)</b>	<b>(64,749)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal on mortgage paid	(21,374)	(20,464)
	<b>1,352,125</b>	<b>(444,980)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	470,740	915,720
End of year	<b>\$ 1,822,865</b>	<b>\$ 470,740</b>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>		
Cash paid for interest	<b>\$ 34,191</b>	<b>\$ 35,103</b>

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
<b>EXPENSES</b>								
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
<b>Total expenses</b>	<b>\$ 93,972</b>	<b>\$ 876,216</b>	<b>\$ 14,775,485</b>	<b>\$ 1,335,987</b>	<b>\$ 17,081,660</b>	<b>\$ 81,083</b>	<b>\$ 7,760</b>	<b>\$ 17,170,503</b>

See accompanying notes.

**ORPHAN FOUNDATION OF AMERICA**

Statement of Functional Expenses

Year Ended December 31, 2010

	Program Services					Support Services		Total
	Intern Program	Care Package Program	Training and Educational Services	Casey Scholar Program	Total Program Services	General and Administrative	Fundraising	
<b>EXPENSES</b>								
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
<b>Total expenses</b>	<b>\$ 134,853</b>	<b>\$ 704,017</b>	<b>\$ 13,421,655</b>	<b>\$ 1,360,815</b>	<b>\$ 15,621,340</b>	<b>\$ 68,193</b>	<b>\$ 6,093</b>	<b>\$ 15,695,626</b>

See accompanying notes.

# ORPHAN FOUNDATION OF AMERICA

Notes to Financial Statements

December 31, 2011 and 2010

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## 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)

# ORPHAN FOUNDATION OF AMERICA

Notes to Financial Statements

December 31, 2011 and 2010

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## 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, 2011 and 2010, 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, 2011 and 2010 were \$106,400 and \$102,500, 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)

# ORPHAN FOUNDATION OF AMERICA

Notes to Financial Statements

December 31, 2011 and 2010

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## 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)

# ORPHAN FOUNDATION OF AMERICA

Notes to Financial Statements

December 31, 2011 and 2010

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**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, 2011. With few exceptions, the Organization is no longer subject to income tax examinations by federal, state, or local tax authorities for years before 2008. The Organization 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 2011 presentation. These reclassifications had no effect on the previously reported change in net assets.

**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.

**ORPHAN FOUNDATION OF AMERICA**

Notes to Financial Statements

December 31, 2011 and 2010

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**NOTE 3. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	2011	2010
Building and improvements	\$ 763,824	\$ 763,824
Furniture and equipment	<u>110,143</u>	<u>106,948</u>
	873,967	870,772
Less: accumulated depreciation	<u>238,061</u>	<u>202,696</u>
	<u>\$ 635,906</u>	<u>\$ 668,076</u>

Depreciation expense for the years ending December 31, 2011 and 2010 was \$35,366 and \$33,485, respectively.

**NOTE 4. INVESTMENTS**

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

	Cost	Market Value	Unrealized Appreciation (Depreciation)
<b><u>December 31, 2011</u></b>			
Bonds	\$ 343,661	\$ 369,668	\$ 26,007
Mutual funds	89,877	85,300	(4,577)
Common stock	<u>685,714</u>	<u>825,049</u>	<u>139,335</u>
	<u>\$ 1,119,252</u>	<u>\$ 1,280,017</u>	<u>\$ 160,765</u>
 <b><u>December 31, 2010</u></b>			
Bonds	\$ 357,271	\$ 371,224	\$ 13,953
Mutual funds	165,970	170,065	4,095
Common stock	<u>615,700</u>	<u>699,749</u>	<u>84,049</u>
	<u>\$ 1,138,941</u>	<u>\$ 1,241,038</u>	<u>\$ 102,097</u>

# ORPHAN FOUNDATION OF AMERICA

## Notes to Financial Statements

December 31, 2011 and 2010

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### 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.

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# ORPHAN FOUNDATION OF AMERICA

## Notes to Financial Statements

December 31, 2011 and 2010

### 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:

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

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Assets at Fair Value</u>
As of 12/31/10				
Corporate bonds	\$ 262,041	\$ -	\$ -	\$ 262,041
U.S. Government securities	70,748	-	-	70,748
U.S. Agency securities	38,705	-	-	38,705
Mutual funds	152,375	17,690	-	170,065
Equity securities	<u>699,479</u>	<u>-</u>	<u>-</u>	<u>699,479</u>
<b>Total</b>	<b><u>\$1,223,348</u></b>	<b><u>\$ 17,690</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,241,038</u></b>

# ORPHAN FOUNDATION OF AMERICA

## Notes to Financial Statements

December 31, 2011 and 2010

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### **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, 2011 and 2010.

### **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. The Organization has contracted with Alabama, Arizona, Arkansas, Colorado, Indiana, Maryland, Missouri, North Carolina, Ohio, and New York. During the year ended December 31, 2011, the Organization discontinued its association with the state of Indiana and entered into a contract with the state of Arizona.

Included in current liabilities at December 31, 2011 and 2010 are ETV cash deposits from the state of New York of \$424,317 and \$474,693, 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 \$34,191 and \$35,103 for the years ended December 31, 2011 and 2010, respectively. This note matures December 14, 2020 and is secured by the property and equipment of the Organization.

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# ORPHAN FOUNDATION OF AMERICA

## Notes to Financial Statements

December 31, 2011 and 2010

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### NOTE 8. MORTGAGE PAYABLE (Concluded)

Future maturities under this note as of December 31, 2011 are as follows:

2012	\$	23,404
2013		24,947
2014		26,591
2015		28,344
2016		30,212
Thereafter		<u>382,873</u>
Total	\$	<u>516,371</u>

### NOTE 9. TEMPORARILY RESTRICTED NET ASSETS

Included in temporarily restricted net assets as of December 31, 2011 and 2010 is \$2,334,027 and \$2,357,136, respectively, relating to funds restricted by donors for specific programs.

Temporarily restricted net assets consist of the following:

	<u>2011</u>	<u>2010</u>
Burtrez J. Morrow Trust	\$ 698,644	\$ 667,084
Glory Foundation	55,161	34,959
Jack Kent Cooke Foundation	13,650	35,125
Casey Family Scholars	<u>1,566,572</u>	<u>1,619,968</u>
Total temporary restricted net assets	<u>\$ 2,334,027</u>	<u>\$ 2,357,136</u>

### NOTE 10. SUBSEQUENT EVENTS

The Organization has evaluated all events subsequent to the statement of financial position date of December 31, 2011 through May 10, 2012, 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.

**SUPPLEMENTARY INFORMATION**

**ORPHAN FOUNDATION OF AMERICA**  
Schedule of Expenditures of Federal Awards - Schedule I  
Year Ended December 31, 2011

<u>Federal Granting Agency/Grant Program</u>	<u>Catalog Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services:			
Pass - Through From States			
Chafee Education and Training Vouchers*			
Alabama	93.599	4147	\$ 929,238
Arizona	93.599	3630-150510	999,227
Arkansas	93.599	4600014220	339,316
Colorado	93.599	521238437	761,124
Indiana	93.599	A93-10-99-10-16-0951	723,031
Maryland	93.599	SSA/OHPS-10-001	1,275,254
Missouri	93.599	C306033001	1,248,807
North Carolina	93.599	00121-09	1,231,486
New York	93.599	C025057	3,601,740
Ohio	93.599	G-89-06-1215	<u>2,914,613</u>
Total			<u>14,023,836</u>
Chafee Foster Care Independence Program			
North Carolina	93.674	00449-11	<u>298,623</u>
<b>Total</b>			<b><u>\$ 14,322,459</u></b>

\* 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. 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 Organization*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule of expenditures of federal awards presents only a selected portion of the operations of Orphan Foundation of America, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Orphan Foundation of America.

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the schedule of expenditures of federal awards are reported on the cash basis of accounting. Such 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 reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

**FOSTER CARE TO SUCCESS**  
Schedule of Findings and Questioned Costs-Schedule II  
Year Ended December 31, 2011

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**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 \$429,674.
- 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, 2011, and have issued our report thereon dated May 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 May 10, 2012.

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  
May 10, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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 could have a direct and material effect on each of Orphan Foundation of America's major federal programs for the year ended December 31, 2011. 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 of laws, regulations, contracts, and grants applicable to each of its major federal programs 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 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

### Internal Control Over Compliance

Management of Orphan Foundation of America is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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  
May 10, 2012