

ForKids, inc. and Subsidiaries
(A Nonprofit Organization)

Consolidated Financial Statements

Years Ended
June 30, 2012 and 2011

ForKids, inc. and Subsidiaries

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Independent Auditors' Report

The Board of Directors
ForKids, inc. and Subsidiaries
Norfolk, Virginia

We have audited the accompanying consolidated statement of financial position of ForKids, inc. and Subsidiaries, as of June 30, 2012, and the related consolidated statements of activities and net assets, of functional expenses, and of cash flows for the year then ended. These consolidated financial statements are the responsibility of ForKids, inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from ForKids, inc. and Subsidiaries' 2011 financial statements and, in our report dated November 15, 2011, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ForKids, inc. and Subsidiaries as of June 30, 2012, and the changes in its net assets and its cash flows for the year 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 reports dated November 29, 2012 on our consideration of ForKids, inc. and Subsidiaries' 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 these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supporting information and schedules shown on pages 23-26 of the report are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements of ForKids, inc. and Subsidiaries. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by the 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 supporting information and schedules and the accompanying schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Cheery, Bekant, & Holland, LLP

Virginia Beach, Virginia
November 29, 2012

ForKids, inc. and Subsidiaries

Consolidated Statement of Financial Position June 30, 2012 (With Comparative Totals for 2011)

			June 30,	
	Unrestricted	Temporarily Restricted	2012 Total	Comparative 2011 Total
Assets				
Current assets				
Cash and cash equivalents	\$ 304,855	\$ 83,481	\$ 388,336	\$ 499,301
United Way endowment fund	39,130	-	39,130	40,061
Inventory	48,640	-	48,640	77,824
Grants receivable	164,062	50,000	214,062	332,843
Accounts receivable	48,406	20,000	68,406	187,304
Prepaid expenses	18,344	-	18,344	34,009
Total current assets	623,437	153,481	776,918	1,171,342
Property and equipment, net	3,360,507	-	3,360,507	3,456,992
Noncurrent assets				
Investments	35,629	-	35,629	35,446
Deposit	10,347	-	10,347	10,347
Total noncurrent assets	45,976	-	45,976	45,793
Total assets	\$ 4,029,920	\$ 153,481	\$ 4,183,401	\$ 4,674,127
Liabilities and Net Assets				
Current liabilities				
Current portion of long-term liabilities	\$ 205,000	\$ -	\$ 205,000	\$ 1,700
Accounts payable, trade	23,805	-	23,805	55,719
Escrow liability	408	34,126	34,534	32,759
Sales tax payable	2,245	-	2,245	-
Accrued wages and related liabilities	63,661	-	63,661	82,930
Total current liabilities	295,119	34,126	329,245	173,108
Long-term liabilities, net of current portion	61,000	-	61,000	266,000
Total liabilities	356,119	34,126	390,245	439,108
Net assets	3,673,801	119,355	3,793,156	4,235,019
Total liabilities and net assets	\$ 4,029,920	\$ 153,481	\$ 4,183,401	\$ 4,674,127

See notes to consolidated financial statements.

ForKids, inc. and Subsidiaries

Consolidated Statement of Activities and Net Assets Year Ended June 30, 2012 (With Comparative Totals for 2011)

	<u>Years Ended June 30,</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012 Total</u>	<u>Comparative 2011 Total</u>
Support				
Federal agencies	\$ -	\$ 955,376	\$ 955,376	\$ 1,098,346
Contributions	865,290	346,621	1,211,911	1,459,499
Government grants	-	570,000	570,000	283,261
Donated services	-	-	-	5,470
Contributed property	158,206	-	158,206	134,618
United Way fund	1,449	115,607	117,056	127,837
Total	<u>1,024,945</u>	<u>1,987,604</u>	<u>3,012,549</u>	<u>3,109,031</u>
Net assets released from restrictions				
Satisfaction of restrictions	2,148,736	(2,148,736)	-	-
Total support	<u>3,173,681</u>	<u>(161,132)</u>	<u>3,012,549</u>	<u>3,109,031</u>
Revenue				
Fundraising (net of expenses of \$93,750 and \$69,336 for June 30, 2012 and 2011, respectively)	395,147	-	395,147	403,074
Interest and dividends	339	-	339	797
Rent and program fees	100,790	-	100,790	64,665
Thrift store sales	176,769	-	176,769	-
Realized/unrealized gain (loss) on investments	(748)	-	(748)	7,171
Loss on sale of assets	-	-	-	(7,677)
Miscellaneous	2,213	-	2,213	347
Total revenue	<u>674,510</u>	<u>-</u>	<u>674,510</u>	<u>468,377</u>
Total support and revenue	<u>3,848,191</u>	<u>(161,132)</u>	<u>3,687,059</u>	<u>3,577,408</u>
Functional expenses				
Program services	3,570,312	-	3,570,312	3,001,893
Management and general	252,867	-	252,867	241,952
Fundraising	305,743	-	305,743	284,390
Total functional expenses	<u>4,128,922</u>	<u>-</u>	<u>4,128,922</u>	<u>3,528,235</u>
Change in net assets	(280,731)	(161,132)	(441,863)	49,173
Net assets, beginning of year	<u>3,954,532</u>	<u>280,487</u>	<u>4,235,019</u>	<u>4,185,846</u>
Net assets, end of year	<u>\$ 3,673,801</u>	<u>\$ 119,355</u>	<u>\$ 3,793,156</u>	<u>\$ 4,235,019</u>

ForKids, inc. and Subsidiaries

Consolidated Statement of Functional Expenses Year Ended June 30, 2012 (With Comparative Totals for 2011)

	Management			Years Ended June 30,	
	Program Services	and General	Fundraising	2012 Total	Comparative 2011 Total
Childcare	\$ 20,213	\$ -	\$ -	\$ 20,213	\$ 47,828
Children's services	9,819	-	-	9,819	12,899
Consulting Materials	1,203	-	-	1,203	-
Depreciation	146,097	43,011	-	189,108	175,196
Employee benefits	230,738	17,933	18,456	267,127	251,378
FEMA assistance	11,241	-	-	11,241	8,934
Forgiven debt	-	-	-	-	680
Housing assistance	225,616	-	-	225,616	1,255
Insurance	66,605	1,290	3,488	71,383	41,050
Interest	10,949	-	-	10,949	10,763
Internet and e-mail	46,782	4,728	-	51,510	37,321
Landscaping	3,976	-	-	3,976	1,708
Miscellaneous	1,721	2,738	811	5,270	5,300
Payroll taxes	171,565	13,541	19,014	204,120	184,805
Pest control	8,311	98	-	8,409	10,904
Postage	4,385	27	1,591	6,003	7,244
Printing and publications	5,342	-	11,918	17,260	19,749
Professional fees	68,129	7,749	-	75,878	67,393
Program services	58,510	-	-	58,510	78,524
Rent	116,984	27,344	-	144,328	90,241
Repairs and maintenance	35,929	3,238	-	39,167	48,321
Salaries	1,938,948	119,451	248,855	2,307,254	2,203,390
Security	12,175	-	-	12,175	18,370
Small equipment	14,014	-	-	14,014	-
Supplies	10,046	-	628	10,674	37,144
Taxes and licenses	6,916	1,805	-	8,721	3,967
Telephone	67,481	1,005	-	68,486	42,365
Training	12,958	39	-	12,997	19,896
Travel/employee reimbursements	227	720	982	1,929	9,473
Utilities	68,486	8,150	-	76,636	83,880
Value of goods sold	187,390	-	-	187,390	-
Vehicle maintenance	7,306	-	-	7,306	7,812
Volunteer	250	-	-	250	445
Total functional expenses	\$ 3,570,312	\$ 252,867	\$ 305,743	\$ 4,128,922	\$ 3,528,235

See notes to consolidated financial statements.

ForKids, inc. and Subsidiaries

Consolidated Statements of Cash Flows Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	\$ (441,863)	\$ 49,173
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	189,108	175,196
Realized/unrealized gain (loss) on investments	748	(7,171)
Gain on sale of property and equipment	-	7,677
Contributed stock	-	(68,697)
Change in operating assets and liabilities		
Inventory	29,184	(77,824)
Grants receivable	118,781	(34,183)
Accounts receivable	118,898	(116,034)
Prepaid expenses	15,665	(15,667)
Deposits	-	(4,383)
Note receivable	-	680
Accounts payable , trade	(31,914)	(4,957)
Escrow liability and deposits	1,775	(22,497)
Sales tax payable	2,245	-
Accrued wages and related liabilities	(19,269)	(57,248)
Net cash used in operating activities	(16,642)	(175,935)
Cash flows from investing activities		
Purchase of property and equipment	(92,623)	(177,409)
Proceeds from sale of investments	-	68,248
Proceeds from disposition of property and equipment	-	2,650
Net cash used in investing activities	(92,623)	(106,511)
Cash flows from financing activities		
Repayment of long-term debt	(1,700)	(6,803)
Net cash used in financing activities	(1,700)	(6,803)
Net decrease in cash and cash equivalents	(110,965)	(289,249)
Cash and cash equivalents		
Beginning of year	499,301	788,550
End of year	\$ 388,336	\$ 499,301
Supplemental cash flow information		
Cash paid for interest	\$ 10,949	\$ 10,763
Schedule of non-cash financing and investing activities		
Donated services income	\$ -	\$ 5,470
Donated services expense	-	(5,470)
	\$ -	\$ -

See notes to consolidated financial statements.

ForKids, inc. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended June 30, 2012 and 2011

Note 1 - Nature of operations and summary of significant accounting policies

Nature of operations - ForKids, inc. (the "Organization") is a not-for-profit Virginia corporation. The mission of ForKids, inc. is to break the cycle of homelessness and poverty for families and children. As a not-for-profit Virginia corporation, ForKids, inc. has developed a unique continuum of services to meet the wide spectrum of need found in homeless families. Incorporated in 1988 as an 8-family shelter, ForKids now supports a daily caseload of over 135 families through a multi-modal services infrastructure designed to provide the appropriate support for families based on their unique needs and circumstances. Through both site-based and in-home programs, ForKids provides emergency shelter, transitional housing, permanent supportive housing, and prevention and rapid re-housing programs in urban, suburban and rural communities throughout South Hampton Roads. Services include housing, case management, mental health therapy, life skills, employment and housing counseling, extensive children's education services, and HMIS administration.

Emergency Shelter and Services - Provides up to 120 days of shelter, coupled with clinical case management and educational services designed to overcome barriers to housing and self-sufficiency. 75 families with 138 children received emergency shelter and services during the year, and 89% exited to permanent or supportive housing.

Transitional Supportive Housing (TSH) - Provides housing, clinical case management, and educational services for up to 2 years for families with high housing barriers, and high-acuity needs. Families develop the financial resources to obtain housing, and learn the skills needed to maintain housing. 24 families with 52 children lived in TSH last year, with 91% of families exiting to appropriate housing in the community.

Legacy Permanent Supportive Housing (PSH) - ForKids added 11 new units of PSH during the year, doubling our capacity. Families in PSH have a disabled head of household, and cannot sustain independent housing without support. 22 families with 45 children lived in ForKids PSH during the year, and 100% of families who exited went to other permanent housing.

Rapid Re-housing and Stabilization Case Management - Under contract with the cities of Norfolk, Suffolk, and Chesapeake ForKids provided stabilization case management for families who were rapidly re-housed following an episode of homelessness. 227 households with 466 children received services. 92% of families remained permanently housed at program exit.

The Organization is supported primarily through donor contributions, grants and the United Way.

ForKids Suffolk, L.L.C. (the "Company") was established in 2008 as a wholly-owned subsidiary for the purpose of holding real property located in Suffolk, Virginia.

ForKids Thrift, L.L.C. d/b/a Good Mojo (the "Thrift Store") was established in 2010 as a wholly-owned subsidiary for the purpose of dealing with donations received and the sale of thrift items for the benefit of the Organization and the community.

ForKids Foundation, L.L.C. was established in 2006 as a wholly-owned subsidiary for the purpose of dealing with the proceeds from contributions and grants received for the benefit of the Organization.

ForKids, inc. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended June 30, 2012 and 2011

Note 1 - Nature of operations and summary of significant accounting policies (continued)

Principles of consolidation - The consolidated financial statements include the accounts of ForKids, inc. and its wholly-owned subsidiaries, ForKids Suffolk, L.L.C., ForKids Foundation, L.L.C., and ForKids Thrift, LLC. All inter-company accounts and transactions have been eliminated during consolidation.

Cash equivalents - For purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less.

Method of accounting - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and, as such, recognize income when earned and expenses when incurred.

Accounts receivable - Accounts receivable consist of trade accounts receivable and are stated at amounts billed less an allowance for doubtful accounts. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions, and other risks inherent in the receivable portfolios. An allowance was not deemed necessary at June 30, 2012 and 2011.

Grants receivable - Grants receivable consist of federal, state and private grants. The Organization determines the need for an allowance for doubtful accounts based on historical data and management's opinion of the collectability of receivables. An allowance was not deemed necessary at June 30, 2012 and 2011.

Investments - The Organization reports investments in equity and bond/fixed income funds at their fair value in the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities and net assets.

Property and equipment - Property and equipment are recorded at cost, or if contributed, at the estimated fair value at the date of contribution. Contributions are reported as unrestricted support unless the donor restricted the donated asset to a specific purpose. Long-lived assets held and used by the Organization are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable. Depreciation is calculated using straight-line and accelerated methods based on the following useful lives:

<u>Asset Category</u>	<u>Useful Life</u>
Building and improvements	15 - 40 Years
Furniture and equipment	5 - 7 Years
Transportation equipment	5 Years

Use of estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes - The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Management has evaluated the effect of the guidance provided by U.S. Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes that became effective this year. Management believes that the Organization continues to satisfy the requirements of a tax-exempt organization at June 30, 2012. Management has evaluated all other tax positions that could have a significant effect on the consolidated financial statements and determined the Organization had no uncertain income tax positions at June 30, 2012.

ForKids, inc. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended June 30, 2012 and 2011

Note 1 - Nature of operations and summary of significant accounting policies (continued)

Income taxes (continued) - The Organization is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2008. ForKids Suffolk, L.L.C., ForKids Foundation, L.L.C, and ForKids Thrift L.L.C. are Virginia limited liability companies. The members' share of income or loss is reported directly on the members' income tax return. Therefore, no provision for income taxes has been reflected in these consolidated financial statements.

Inventory - Inventory consists of contributed goods and is stated at the lower of estimated replacement cost (first-in, first-out) or market.

Financial statement presentation - The Organization presents its consolidated financial statements in accordance with accounting standards for consolidated financial statements of not-for-profit organizations. Under accounting standards, the Organization is required to report information regarding its financial position and activities according to three classes of assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a consolidated statement of cash flows.

Advertising costs - The Organization expenses advertising costs as incurred; however, they incurred no advertising costs for the years ended June 30, 2012 and 2011.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions received are considered to be available for unrestricted use unless specifically restricted by the donor.

Recognition of donor restrictions - All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and net assets as net assets released from restrictions.

Functional allocation of expenses - The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statement of activities and net assets and the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs, supporting services benefited, and fundraising.

Grant income - Unrestricted grant income is recognized in the year the grant is awarded. Cost reimbursement type grants are recognized as unrestricted revenue because time and purpose restrictions have been met.

Reclassification - Certain reclassifications have been made to the 2011 statements of cash flows to conform to the current year presentation. These reclassifications had no effect on net assets.

ForKids, inc. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended June 30, 2012 and 2011

Note 2 - Restricted cash

Restricted cash consists of the following:

Donor	Restriction	June 30, 2012 Amount
Client Escrow	Escrow Account	\$ 17,712
Security Deposits	Security Deposit	16,414
Thrift	Thrift seed	1,787
Programs/Services	Program/services	47,373
Gift Cards	Restricted by donors for specific	195
Total		\$ 83,481

Donor	Restriction	June 30, 2011 Amount
Various	Security Deposit	\$ 9,940
Morgan Place	Escrow Account	21,484
Haven House Client Funds	Escrow Account	883
Gift Cards	Restricted by donors for specific	1,635
Miscellaneous	Restricted by donors for specific	99,710
Total		\$ 133,652

Note 3 - Investments

Investments are as follows:

	Fair Value	Fair Value Measurements at June 30, 2012		
		Level 1	Level 2	Level 3
Certificate of deposit	\$ 35,629	\$ 35,629	\$ -	\$ -
Marketable equity securities	11,316	11,316	-	-
Mutual funds	27,814	27,814	-	-
Total assets	\$ 74,759	\$ 74,759	\$ -	\$ -

	Fair Value	Fair Value Measurements at June 30, 2011		
		Level 1	Level 2	Level 3
Certificate of deposit	\$ 35,446	\$ 35,446	\$ -	\$ -
Bonds	11,340	11,340	-	-
Mutual funds	28,721	28,721	-	-
Total assets	\$ 75,507	\$ 75,507	\$ -	\$ -

ForKids, inc. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended June 30, 2012 and 2011

Note 3 – Investments (continued)

Presented on balance sheet as follows:

	June 30,	
	2012	2011
Current assets	\$ 39,130	\$ 40,061
Noncurrent assets	35,629	35,446
Total	<u>\$ 74,759</u>	<u>\$ 75,507</u>

The United Way endowment fund is an affiliate account the Organization holds with the United Way of South Hampton Roads Foundation and contains equity and bond/fixed income fund investments. It is a pooled endowment fund with other institutions and foundations to achieve optimal investment returns and cost savings. Net realized/unrealized gains (loss) on investments of \$(748) and \$7,171 are included in the consolidated statements of activities and net assets for the years ended June 30, 2012 and 2011, respectively.

Note 4 - Donated services and property

These consolidated statements reflect donated professional services that can be reasonably valued. The Organization recorded donated professional services of \$-0- and \$5,470 for the years ended June 30, 2012 and 2011, respectively. Community volunteers donate a significant amount of non-professional time to program services which cannot be objectively valued and are not reflected.

The consolidated statements also reflect donated property of \$158,206 and \$134,618, which consisted of thrift store items for the years ended June 30, 2012 and 2011, respectively.

Note 5 - Paid time off accrual

Beginning October 1, 2008, the Organization no longer pays out paid time off (“PTO”) balances upon separation from employment. All employees signed the transition policy allowing employees with eligible balances to elect to bank a portion of PTO for pay out upon separation from employment or elect to have the entire PTO balance converted with no payout upon separation from employment. The accrued liability as of June 30, 2012 and 2011 includes the value of only those employees who elected to bank a portion of their eligible PTO for payout upon separation.

ForKids, inc. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended June 30, 2012 and 2011

Note 6 - Property and equipment

Property and equipment consists of the following at June 30:

	2012	2011
Land	\$ 448,562	\$ 448,562
Buildings and improvements	3,497,608	3,532,326
Furniture and equipment	494,747	380,132
Transportation equipment	198,438	198,437
	<u>4,639,355</u>	<u>4,559,457</u>
Less allowance for depreciation	1,278,848	1,102,465
	<u>\$ 3,360,507</u>	<u>\$ 3,456,992</u>

Depreciation expense was \$189,108 and \$175,196 for the years ended June 30, 2012 and 2011, respectively.

Note 7 - Grant revenue

During the years ended June 30, 2012 and 2011, the Organization was the recipient of six Supportive Housing Program (“SHP”) grants from the Department of Housing and Urban Development (“HUD”). These are renewing grants with varying expiration dates in fiscal years 2012 and 2011, respectively. The Organization must expend funds prior to requesting reimbursement from HUD and must provide 25% in matching funds.

SHP grant information is as follows:

	2012	2011
SHP Grants award by HUD	\$ 979,482	\$ 670,054
Expended and reimbursed for current year award	\$ 481,306	\$ 376,397
Reimbursed for prior year award	\$ 257,561	\$ 293,657
Rewards available	\$ 498,176	\$ 243,654

ForKids, inc. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended June 30, 2012 and 2011

Note 8 - Lease commitment

The Organization leases the premises it occupies for office space with lease payments of an escalating base rent (plus certain allocable direct costs) required under present commitment agreements for the buildings space. The rental agreement having an original term of five years will expire December 2012, with the option to renew for three additional one year periods.

In addition, the Organization leases the premises it occupies for ForKids Thrift, LLC with annual payments of \$52,600. The rental agreement having an original term of three years will expire June 2014, with the option to extend for one or more renewal lease terms.

During 2012, the Organization began a new program leasing multiple premises for use in program services. Payments are reimbursed by the U.S. Department of Housing and Urban Development under the Supportive Housing Program. The rental agreements expire at various times through May 2013.

Due to the new program mentioned in the preceding paragraph, a portion of the rental expense is classified as housing assistance on the consolidated statement of functional expense. Rental expense under the various leases for the years ended June 30, 2012 and June 30, 2011 was \$259,018 and \$90,241, respectively.

Future minimum lease payments under these lease agreements are:

2013	\$	187,330
2014	\$	56,983

Note 9 - Lessor arrangements

During 2012, the Organization began leasing operations that consist principally of leasing buildings. The Organization's leases are classified as operating leases. Total rental income from unrelated parties for the year ended June 30, 2012 was \$66,043.

The following schedule provides an analysis of the Organization's investment in property on operating leases and property held for lease by major classes as of June 30, 2012:

Building	\$	385,185
Less accumulated depreciation		(160,182)
	\$	<u>225,003</u>

Minimum future rentals are:

2013	\$	76,819
2014	\$	13,049
2015	\$	13,441
2016	\$	2,251

ForKids, inc. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended June 30, 2012 and 2011

Note 10 - Pension plan

The Organization maintains a Simple IRA retirement plan that allows employees making more than \$5,000 to participate. The Organization will provide a dollar-for-dollar match up to 3% of each participant's annual salary. During the years ended June 30, 2012 and 2011, the Organization incurred pension expense of \$45,150 and \$38,687, respectively.

Note 11 - Support

The amount shown on the accompanying consolidated statements as being received from the United Way of South Hampton Roads is net of the Organization's proportionate share of federal fundraising costs of \$12,990 and \$11,035 for the years ended June 30, 2012 and 2011, respectively.

Note 12 - Line of credit

As of November 2011, the Organization entered into a line of credit in the amount of \$135,000 secured by a deed of trust. Interest is payable on the line at an annual rate equal to 1% over the Wall Street Journal prime rate with a floor of 5.25%.

Note 13 - Long-term liabilities

Long-term liabilities at June 30 are summarized as follows:

	2012	2011
<i>Mortgage payable</i>		
Virginia Housing and Development Authority, noninterest bearing, \$567 due monthly, secured by real estate at 131D View Avenue, Norfolk, Virginia.	\$ -	\$ 1,700
<i>Deed of trust note</i>		
Trust, including interest only payments at 5.25%, through 2013, secured by real estate. The Trust is owed by the parent of a member of the Organization's board of directors.	205,000	205,000
<i>Notes payable</i>		
Federal Home Loan Bank of Atlanta, Affordable Housing Program through Wachovia, noninterest bearing, due in full if the Organization ceases to operate as low income housing prior to September 2024, secured by real estate at 7th Bay Street, Norfolk, Virginia.	40,000	40,000
City of Norfolk, noninterest bearing, due in full upon sale of building, secured by real estate at 131D View Avenue, Norfolk, Virginia.	21,000	21,000
	266,000	267,700
Less current portion	205,000	1,700
Long-term portion	\$ 61,000	\$ 266,000

ForKids, inc. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended June 30, 2012 and 2011

Note 13 - Long-term liabilities (continued)

Maturities of the long-term liabilities in each of the next five fiscal years are as follows:

2013	\$	205,000
2014		-
2015		-
2016		-
2017		-
Thereafter		61,000
		\$ 266,000

Interest of \$10,949 and \$10,763 was paid during the years ended June 30, 2012 and 2011, respectively.

Note 14 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2012	2011
Thrift	\$ 1,787	\$ 114,358
Children Services	9,141	16,000
Emergency Shelter Services	3,378	62,109
Operating	45,000	75,520
Program and Services	60,049	12,500
	\$ 119,355	\$ 280,487

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the other events specified by donors as follows:

	2012	2011
Thrift	\$ 112,571	\$ 36,142
Capital	-	21,664
Children Services	80,021	79,275
Emergency Shelter Services	261,058	111,934
Operating	154,484	235
Program and Services	1,540,602	1,761,373
	\$ 2,148,736	\$ 2,010,623

ForKids, inc. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended June 30, 2012 and 2011

Note 15 - Concentration of revenue

The Organization receives a significant amount of its support from the Department of Human Services, the U.S. Department of Housing and Urban Development and a private foundation. If a significant reduction in the level of support was to occur, it would affect the Organization's future programs and activities.

Note 16 - Concentration of credit risk

The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest bearing transaction accounts. The Organization from time to time may have amounts on deposit in excess of the insured limits. As of June 30, 2012, the Organization had \$60,681, which exceeds these insured amounts.

Note 17 - Fair value measurements

The Organization determines the fair value of its financial instruments based on the fair value hierarchy established in accounting standards which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Accounting standards define fair value as the exchange price that would be received for an asset or liability in the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting standards describe three levels of inputs that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 - Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 - Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

ForKids, inc. and Subsidiaries

Notes to Consolidated Financial Statements Years Ended June 30, 2012 and 2011

Note 17 - Fair value measurements (continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Marketable equity securities - Investments in marketable equity securities are valued based on quoted market prices (Level 1).

Mutual funds - These investments are public investment vehicles valued using the Net Asset Value ("NAV") provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market and classified within Level 1 of the valuation hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 18 - Subsequent events

Management of the Organization has evaluated subsequent events November 29, 2012, in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.



Independent Auditors' 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
ForKids, inc. and Subsidiaries
Norfolk, Virginia

We have audited the consolidated financial statements of ForKids, inc. and Subsidiaries as of and for the year ended June 30, 2012, and have issued our report thereon dated November 29, 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

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered ForKids, inc. and Subsidiaries' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ForKids, inc. and Subsidiaries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ForKids, inc. and Subsidiaries' 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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 ForKids, inc. and Subsidiaries' consolidated 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Virginia Beach, Virginia
November 29, 2012



**Independent Auditors' 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
ForKids, inc. and Subsidiaries
Norfolk, Virginia

Compliance

We have audited ForKids, inc. and Subsidiaries' 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 ForKids, inc. and Subsidiaries' major federal programs for the year ended June 30, 2012. ForKids, inc. and Subsidiaries' major federal programs are identified in the summary of auditors' 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 ForKids, inc. and Subsidiaries' management. Our responsibility is to express an opinion on ForKids, inc. and Subsidiaries' 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. 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 ForKids, inc. and Subsidiaries' 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 ForKids, inc. and Subsidiaries' compliance with those requirements.

In our opinion, ForKids, inc. and Subsidiaries complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of ForKids, inc. and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered ForKids, inc. and Subsidiaries' internal control over compliance with 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 ForKids, inc. and Subsidiaries' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the board of directors, management, others within the Organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Cheryl Beant, Holland, VA". The signature is written in a cursive style with a large, looping initial 'C'.

Virginia Beach, Virginia
November 29, 2012

ForKids, inc. and Subsidiaries

Consolidated Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Number	Expenditures
U.S. Department of Housing and Urban Development			
Pass-through from Norfolk Department of Human Services			
Emergency Shelter Grants Program	14.231	25-000013222	\$ 49,770
Community Development Block Grants/Entitlement Grants	14.246	25-000012736	12,525
Supportive Housing Program			
ESI/LEAP/TIP merged	14.235	VA002233F011003	214,833
ESI/LEAP	14.235	VA0022B3F010802	82,485
Legacy	14.235	VA0023B3F010802	38,039
Legacy/DP Merged	14.235	VA0023B3F011003	139,724
Elizabeth Place	14.235	VA0019B3F011104	31,472
Elizabeth Place (formerly Morgan Place Expansion)	14.235	VA0019B3F011003	69,208
Morgan Place	14.235	VA0029B3F010802	41,694
Chesp Legacy 1	14.235	VA0173B3F121000	16,423
Chesp Leg 2	14.235	VA0174B3F121000	8,417
Norfolk Legacy Exp II	14.235	VA0168B3F011000	86,441
Legacy Expansion	14.235	VA36B601012	10,131
Homeless Prevention and Rapid Re-Housing Program Technical Assistance			
ARRA - Isle of Wight	14.257		2,220
ARRA - Chesapeake	14.257	10-027952-15	50,564
ARRA - Norfolk	14.257	40-000012452	21,440
ARRA - Suffolk	14.257		2,500
Pass-through City of Suffolk			
Community Development Block Grants/Entitlement Grants	14.246		20,000
Emergency Shelter Grants Program	14.231	10-ESG-030	21,526
U.S. Department of Health and Human Services			
Pass-through from Virginia Department of Housing and Community Development			
Child Care for Homeless Children Program (CCHCP)	93.575		8,879
Department of Homeland Security			
Pass-through from City of Norfolk, Virginia			
Emergency Food and Shelter Program - Phase 29	97.024	Phase 29	11,438
U.S. Department of Agriculture			
Child and Adult Food Care Program	10.558	59436-2012	11,719
Child and Adult Food Care Program	10.558	59436-2011	3,928
Total			<u>\$ 955,376</u>

Method of Accounting: The accompanying schedule of expenditures of federal awards includes the federal grant activity of ForKids, inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts present in, or used in the preparation of the basic financial statements.

ForKids, inc. and Subsidiaries

Consolidated Schedule of Support Year Ended June 30, 2012

Federal agencies

Supportive Housing Program (Morgan Place)	\$ 41,694	
Supportive Housing Program (Legacy)	177,763	
Supportive Housing Program (Legacy Expansion)	10,131	
Supportive Housing Program (ESI/Leap/TIP)	297,318	
Supportive Housing Program (Elizabeth Place)	100,680	
Supportive Housing Program (Chesapeake Legacy 1)	16,423	
Supportive Housing Program (Chesapeake Legacy 2)	8,417	
Supportive Housing Program (Norfolk Legacy Expansion 2)	86,441	
Child Care for Homeless Children Program	8,879	
Community Development Block Grant	32,525	
Emergency Shelter Grant	71,296	
Emergency Food and Shelter Program - Phase 29	11,438	
Homeless Prevention and Rapid Re-Housing Program	76,724	
Child and Adult Food Care Program	15,647	
Total federal agencies		\$ 955,376

Contributions

Individuals, churches, businesses, and foundation grants		1,211,911
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Other government grants

Children Services Coordinator Grant	13,921	
City of Chesapeake	93,985	
City of Norfolk Rapid Rehousing	50,000	
City of Suffolk	10,000	
County of Isle of Wight	8,000	
Human Services Grant	161,336	
State Shelter Grant (SSG)	82,758	
Virginia Promising Practices Program (VP3)	150,000	
Total other government grants		570,000

Contributed property

158,206

United Way

117,056

Total support

\$ 3,012,549

ForKids, inc. and Subsidiaries

Schedule of Findings and Questioned Costs Year Ended June 30, 2012

Section I - Summary of auditors' results

Consolidated Financial Statements

Type of auditors' report issued [*unqualified, qualified, adverse, or disclaimer*]: unqualified

Internal control over financial reporting:

- Material weakness(s) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(s) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major programs [*unqualified, qualified, adverse, or disclaimer*]:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

yes no

Identification of major program:

CFDA Number

14.235

Name of Federal Program or Cluster

Supportive Housing Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

Section II - Financial statement findings

None noted

Section III - Federal award findings and questioned costs

None noted

ForKids, inc. and Subsidiaries

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011**

Findings - Financial statement audit

None noted

Findings and questioned costs - Major federal award programs audit

None noted