

**FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

*As of and for the Years Ended June 30, 2013
and 2012*

And Report of Independent Auditor

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR 1-2

FINANCIAL STATEMENTS

Consolidated Statement of Financial Position 3
Consolidated Statement of Activities and Net Assets 4
Consolidated Statement of Functional Expenses 5
Consolidated Statements of Cash Flows 6
Notes to the Consolidated Financial Statements 7-17

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance
with *Government Auditing Standards*..... 18-19

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*.....20-21

SUPPLEMENTAL SCHEDULES

Consolidated Schedule of Expenditures of Federal Awards 22
Consolidated Schedule of Support..... 23
Schedule of Findings and Questioned Costs 24
Summary Schedule of Prior Audit Findings 25

Report of Independent Auditor

To the Board of Directors
ForKids, inc. and Subsidiaries
Norfolk, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ForKids, inc. and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and net assets, functional expenses and cash flows, for the year then ended, and the related notes to the consolidated financial statements. The prior year summarized comparative information has been derived from ForKids, inc. and Subsidiaries' 2012 financial statements and, in our report dated November 29, 2012, we expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ForKids, inc. and Subsidiaries as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supporting information and schedules shown on pages 22-25 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, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2013 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Charley Bekant LLP".

Virginia Beach, Virginia
October 2, 2013

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013 (with Comparative Totals for 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013 Total</u>	<u>Comparative 2012 Total</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 224,166	\$ 220,973	\$ 445,139	\$ 388,336
United Way endowment fund	40,585	-	40,585	39,130
Inventory	53,743	-	53,743	48,640
Grants receivable	307,138	81,500	388,638	214,062
Accounts receivable	41,945	61,331	103,276	68,406
Prepaid expenses	14,322	-	14,322	18,344
Total Current Assets	<u>681,899</u>	<u>363,804</u>	<u>1,045,703</u>	<u>776,918</u>
Property and equipment, net	<u>3,212,389</u>	<u>-</u>	<u>3,212,389</u>	<u>3,360,507</u>
Noncurrent Assets:				
Investments	35,720	-	35,720	35,629
Deposit	10,347	-	10,347	10,347
Total Noncurrent Assets	<u>46,067</u>	<u>-</u>	<u>46,067</u>	<u>45,976</u>
Total Assets	<u><u>\$ 3,940,355</u></u>	<u><u>\$ 363,804</u></u>	<u><u>\$ 4,304,159</u></u>	<u><u>\$ 4,183,401</u></u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Current portion of long-term liabilities	\$ 205,000	\$ -	\$ 205,000	\$ 205,000
Accounts payable, trade	32,966	-	32,966	23,805
Deferred Revenue	1,766	-	1,766	-
Escrow liability	347	32,191	32,538	34,534
Sales tax payable	762	-	762	2,245
Accrued wages and related liabilities	64,143	-	64,143	63,661
Total Current Liabilities	<u>304,984</u>	<u>32,191</u>	<u>337,175</u>	<u>329,245</u>
Long-term liabilities, net of current portion	<u>61,000</u>	<u>-</u>	<u>61,000</u>	<u>61,000</u>
Total Liabilities	<u>365,984</u>	<u>32,191</u>	<u>398,175</u>	<u>390,245</u>
Net Assets	<u>3,574,371</u>	<u>331,613</u>	<u>3,905,984</u>	<u>3,793,156</u>
Total Liabilities and Net Assets	<u><u>\$ 3,940,355</u></u>	<u><u>\$ 363,804</u></u>	<u><u>\$ 4,304,159</u></u>	<u><u>\$ 4,183,401</u></u>

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

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED JUNE 30, 2013 (with Comparative Totals for 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013 Total</u>	<u>Comparative 2012 Total</u>
Support:				
Federal agencies	\$ -	\$ 1,151,013	\$ 1,151,013	\$ 955,376
Contributions	792,896	600,421	1,393,317	1,211,911
Government grants	-	619,329	619,329	570,000
Donated services	-	1,305	1,305	-
Contributed property	262,412	50,159	312,571	158,206
United Way fund	325	229,820	230,145	117,056
Total	<u>1,055,633</u>	<u>2,652,047</u>	<u>3,707,680</u>	<u>3,012,549</u>
Net assets released from restrictions				
Satisfaction of restrictions	<u>2,439,789</u>	<u>(2,439,789)</u>	<u>-</u>	<u>-</u>
Total Support	<u>3,495,422</u>	<u>212,258</u>	<u>3,707,680</u>	<u>3,012,549</u>
Revenue:				
Fundraising (net of expenses of \$96,973 and \$93,750 for June 30, 2013 and 2012, respectively)	425,227	-	425,227	395,147
Interest and dividends	171	-	171	339
Rent and program fees	159,229	-	159,229	100,790
Thrift store sales	224,042	-	224,042	176,769
Realized/unrealized gain (loss) on investments	3,042	-	3,042	(748)
Miscellaneous	12,586	-	12,586	2,213
Total Revenue	<u>824,297</u>	<u>-</u>	<u>824,297</u>	<u>674,510</u>
Total Support and Revenue	<u>4,319,719</u>	<u>212,258</u>	<u>4,531,977</u>	<u>3,687,059</u>
Functional Expenses:				
Program services	3,867,405	-	3,867,405	3,570,312
Management and general	268,813	-	268,813	252,867
Fundraising	282,931	-	282,931	305,743
Total Functional Expenses	<u>4,419,149</u>	<u>-</u>	<u>4,419,149</u>	<u>4,128,922</u>
Change in net assets	(99,430)	212,258	112,828	(441,863)
Net assets, beginning of year	<u>3,673,801</u>	<u>119,355</u>	<u>3,793,156</u>	<u>4,235,019</u>
Net assets, end of year	<u>\$ 3,574,371</u>	<u>\$ 331,613</u>	<u>\$ 3,905,984</u>	<u>\$3,793,156</u>

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

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013 (with Comparative Totals for 2012)

	Program Services	Management and General	Fundraising	2013 Total	Comparative 2012 Total
Childcare	\$ 25,685	\$ -	\$ -	\$ 25,685	\$ 20,213
Children's services	36,065	-	-	36,065	9,819
Consulting materials	1,065	-	-	1,065	1,203
Depreciation	161,297	24,084	-	185,381	189,108
Employee benefits	216,854	21,390	15,794	254,038	267,127
FEMA assistance	6,280	-	-	6,280	11,241
Housing assistance	617,628	-	-	617,628	225,616
Insurance	67,894	3,792	2,944	74,630	71,383
Interest	10,975	-	-	10,975	10,949
Landscaping	5,697	-	-	5,697	3,976
Miscellaneous	9,688	4,416	2,136	16,240	5,270
Payroll taxes	157,860	13,611	15,929	187,400	204,120
Pest control	3,104	-	-	3,104	8,409
Postage	5,273	16	1,704	6,993	6,003
Printing and publications	5,255	-	15,960	21,215	17,260
Professional fees	60,286	6,586	11,307	78,179	75,878
Program services	42,748	-	7,185	49,933	58,510
Rent	119,906	27,006	-	146,912	144,328
Repairs and maintenance	59,173	-	-	59,173	39,167
Salaries	1,770,263	146,576	208,219	2,125,058	2,307,254
Security	13,511	-	-	13,511	12,175
Small equipment	22,650	-	-	22,650	14,014
Supplies	14,203	1,016	1,567	16,786	10,674
Taxes and licenses	8,440	-	-	8,440	8,721
Technology	29,252	3,705	-	32,957	51,510
Telephone	57,021	6,976	-	63,997	68,486
Training	13,550	-	-	13,550	12,997
Travel/employee reimbursements	-	300	186	486	1,929
Utilities	76,124	9,339	-	85,463	76,636
Value of goods sold	239,909	-	-	239,909	187,390
Vehicle maintenance	9,570	-	-	9,570	7,306
Volunteer	179	-	-	179	250
Total Functional Expenses	\$ 3,867,405	\$ 268,813	\$ 282,931	\$ 4,419,149	\$ 4,128,922

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 112,828	\$ (441,863)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	185,381	189,108
Realized/unrealized gain (loss) on investments	(3,042)	748
Change in operating assets and liabilities:		
Inventory	(5,103)	29,184
Grants receivable	(174,576)	118,781
Accounts receivable	(34,870)	118,898
Prepaid expenses	4,022	15,665
Accounts payable, trade	9,161	(31,914)
Deferred revenue	1,766	-
Escrow liability and deposits	(1,996)	1,775
Sales tax payable	(1,483)	2,245
Accrued wages and related liabilities	482	(19,269)
Net cash provided by (used in) operating activities	<u>92,570</u>	<u>(16,642)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(37,263)	(92,623)
Purchase of investments	1,496	-
Net cash used in investing activities	<u>(35,767)</u>	<u>(92,623)</u>
Cash flows from financing activities:		
Repayment of long-term debt	-	(1,700)
Net increase (decrease) in cash and cash equivalents	56,803	(110,965)
Cash and cash equivalents, beginning of year	<u>388,336</u>	<u>499,301</u>
Cash and cash equivalents, end of year	<u>\$ 445,139</u>	<u>\$ 388,336</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 10,975</u>	<u>\$ 10,949</u>
Schedule of non-cash financing and investing activities		
Donated services income	\$ 1,305	\$ -
Donated services expense	(1,305)	-
	<u>\$ -</u>	<u>\$ -</u>

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

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

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 177 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. 93 families with 178 children received emergency shelter and services during the year, and 79% 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. 28 families with 62 children lived in TSH last year, with 92% of families exiting to appropriate housing in the community.

Legacy Permanent Supportive Housing (PSH) - Families in PSH have a disabled head of household, and cannot sustain independent housing without support. 38 families with 80 children lived in ForKids PSH during the year, and 88% 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. 191 households with 394 children received services. 88% 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
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

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, 2013 and 2012.

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, 2013 and 2012.

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>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.

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

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

Income Taxes - The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Management believes that the Organization continues to satisfy the requirements of a tax-exempt organization at June 30, 2013. 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, 2013 and 2012.

The Organization is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2009. 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 standard thrift store prices.

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, 2013 and 2012.

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.

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

Note 2—Restricted cash

Restricted cash consists of the following:

Donor	Restriction	June 30, 2013 Amount
Client escrow	Escrow account	\$ 9,952
Security deposits	Security deposit	22,239
Programs/services	Program/services	188,782
Total		\$ 220,973

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 items	195
Total		\$ 83,481

Note 3—Investments

Investments are as follows:

	Fair Value Measurements at June 30, 2013			
	Fair Value	Level 1	Level 2	Level 3
Certificate of deposit	\$ 35,720	\$ 35,720	\$ -	\$ -
Marketable equity securities	8,986	8,986	-	-
Mutual funds	31,599	31,599	-	-
Total assets	\$ 76,305	\$ 76,305	\$ -	\$ -

	Fair Value Measurements at June 30, 2012			
	Fair Value	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	\$ -	\$ -

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

Note 3—Investments (continued)

Presented on balance sheet as follows:

	June 30,	
	2013	2012
Current assets	\$ 40,585	\$ 39,130
Noncurrent assets	35,720	35,629
Total	<u>\$ 76,305</u>	<u>\$ 74,759</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 \$3,042 and \$(748) are included in the consolidated statements of activities and net assets for the years ended June 30, 2013 and 2012, 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 \$1,305 and \$-0- for the years ended June 30, 2013 and 2012, 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 \$312,571 which consisted of thrift store items and various other good for the year ended June 30, 2013 and \$158,206, which consisted of thrift store items for the year ended June 30, 2012.

Note 5—Paid time off accrual

Beginning October 1, 2008, the Organization no longer pays 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, 2013 and 2012 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
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

Note 6—Property and equipment

Property and equipment consists of the following at June 30:

	2013	2012
Land	\$ 448,562	\$ 448,562
Buildings and improvements	3,502,177	3,497,608
Furniture and equipment	502,270	494,747
Transportation equipment	215,838	198,438
	<u>4,668,847</u>	<u>4,639,355</u>
Less allowance for depreciation	(1,456,458)	(1,278,848)
	<u>\$ 3,212,389</u>	<u>\$ 3,360,507</u>

Depreciation expense was \$185,381 and \$189,108 for the years ended June 30, 2013 and 2012, respectively.

Note 7—Grant revenue

During the years ended June 30, 2013 and 2012, the Organization was the recipient of 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 2014 and 2013, 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:

	2013	2012
SHP Grants award by HUD	\$ 790,620	\$ 979,482
Expended and reimbursed for current year award	\$ 466,327	\$ 481,306
Reimbursed for prior year	\$ 388,141	\$ 257,561
Rewards available	\$ 324,293	\$ 498,176

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

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 original rental agreement expired December 2012. The agreement was renewed for an additional year. The Organization has the option to renew for two additional one-year periods.

In addition, the Organization leases the premises it occupies for ForKids Thrift, LLC with annual payments of \$59,175 and \$52,600, for 2013 and 2012, respectively. 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 during fiscal years 2013 and 2014.

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, 2013 and June 30, 2012 was \$249,640 and \$259,018, respectively.

Future minimum lease payments under these lease agreements are:

2014	\$	197,236
2015	\$	1,498

The Organization leases office equipment under various lease agreements expiring in fiscal years 2014 and 2018. Equipment lease commitments are as follows:

2014	\$	19,462
2015	\$	18,876
2016	\$	18,876
2017	\$	18,876
2018	\$	11,011

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

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, 2013 and 2012 was \$117,268, and \$66,043, respectively.

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, 2013:

Building	\$	385,185
Less accumulated depreciation		<u>(169,879)</u>
	\$	<u>215,306</u>

Minimum future rentals are:

2014	\$	47,531
2015	\$	15,766
2016	\$	2,251

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, 2013 and 2012, the Organization incurred pension expense of \$43,897 and \$45,150, 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 \$23,801 and \$12,990 for the years ended June 30, 2013 and 2012, 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%. At June 30, 2013 and 2012, there was no outstanding balance.

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

Note 13—Long-term liabilities

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

	<u>2013</u>	<u>2012</u>
<i>Deed of trust note</i>		
Trust, including interest only payments at 5.25%, through December 16, 2013, secured by real estate. The Trust is owned by the estate of a 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
	<u>266,000</u>	<u>266,000</u>
Less current portion	<u>(205,000)</u>	<u>(205,000)</u>
Long-term portion	<u>\$ 61,000</u>	<u>\$ 61,000</u>

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

2014	\$ 205,000
2015	-
2016	-
2017	-
2018	-
Thereafter	61,000
	<u>\$ 266,000</u>

Interest of \$10,975 and \$10,949 was paid during the years ended June 30, 2013 and 2012, respectively.

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

Note 14—Temporarily restricted net assets

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

	2013	2012
Thrift	\$ -	\$ 1,787
Children Services	-	9,141
Emergency Shelter Services	31,315	3,378
Operating	72,867	45,000
Program and Services	227,431	60,049
	<u>\$ 331,613</u>	<u>\$ 119,355</u>

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:

	2013	2012
Thrift	\$ 1,787	\$ 112,571
Children Services	81,557	80,021
Emergency Shelter Services	49,764	261,058
Operating	45,000	154,484
Program and Services	2,261,681	1,540,602
	<u>\$ 2,439,789</u>	<u>\$ 2,148,736</u>

Note 15—Concentration of revenue

The Organization receives a significant amount of its support from the Department of Health and Human Services and the U.S. Department of Housing and Urban Development. 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. In addition, the FDIC provided unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts through December 31, 2012; however, effective January 1, 2013, the FDIC discontinued the additional unlimited coverage. The Organization from time to time may have amounts on deposit in excess of the insured limits. As of June 30, 2013, the Organization had \$122,791, which exceeds these insured amounts.

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 and 2012

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.

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 October 2, 2013, 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of ForKids, inc. and Subsidiaries as of and for the year ended June 30, 2013, and have issued our report thereon dated October 2, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ForKids, inc. and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ForKids, inc. and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of the ForKids, inc. and Subsidiaries' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Cheryl Bekant LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia
October 2, 2013

**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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of ForKids, inc. and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of ForKids, inc. and Subsidiaries' compliance.

Opinion

In our opinion, ForKids, inc. and Subsidiaries complied, in all material respects, with the types of compliance 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, 2013.

Internal Control over Compliance

Management of ForKids, inc. and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered ForKids, inc. and Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cheryl Bekant LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia
October 2, 2013

FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

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 Solutions Grant Program	14.231	25-000013660	\$ 55,000
Community Development Block Grants/Entitlement Grants	14.218	25-000013165	12,525
Supportive Housing Program			
Legacy/DP merged	14.235	VA0023B3F011003	52,326
Legacy	14.235	VA0023B3F011104	124,881
Leap ESI/MP merged	14.235	VA0022B3F011003	128,273
Leap ESI/MP merged	14.235	VA0022B3F011004	240,484
Elizabeth Place	14.235	VA0019B3F011104	72,332
Elizabeth Place	14.235	VA0019L3F011205	28,404
Western Tidewater Legacy	14.235	VA0189B3F011100	75,499
Chesapeake Legacy 1	14.235	VA0173B3F121000	21,252
Chesapeake Legacy 2	14.235	VA0174B3F121000	9,483
Norfolk Legacy Exp II	14.235	VA0168B3F011000	128,587
Pass-through City of Suffolk			
Emergency Solutions Grant Program	14.246	12-ESG2-419	41,216
Emergency Solutions Grant Program	14.231	13-ESG-419	71,917
Pass-through from City of Chesapeake			
CDBG - Via City of Chesapeake	14.218		51,442
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	13-CC-060	9,199
Federal Emergency Management Agency			
Pass-through from City of Norfolk, Virginia			
Emergency Food and Shelter Program - Phase 30	97.024	Phase 30	9,930
U.S. Department of Agriculture			
Child and Adult Food Care Program	10.558	59436-2012	4,579
Child and Adult Food Care Program	10.558	59436-2013	13,684
Total			<u>\$ 1,151,013</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
(A NONPROFIT ORGANIZATION)
CONSOLIDATED SCHEDULE OF SUPPORT

YEAR ENDED JUNE 30, 2013

Federal Agencies:

Supportive Housing Program (Legacy)	\$	150,154	
Supportive Housing Program (Legacy Expansion)		27,053	
Supportive Housing Program (ESI/Leap/TIP/Morgan Place)		368,757	
Supportive Housing Program (Elizabeth Place)		100,736	
Supportive Housing Program (Chesapeake Legacy 1)		21,252	
Supportive Housing Program (Chesapeake Legacy 2)		9,483	
Supportive Housing Program (Norfolk Legacy Expansion 2)		128,587	
Supportive Housing Program (Western Tidewater Legacy)		75,499	
Child Care for Homeless Children Program		9,199	
Community Development Block Grant (Norfolk)		12,525	
Community Development Block Grant (Chesapeake)		51,442	
Emergency Solutions Grant		168,133	
Emergency Food and Shelter Program - Phase 30		9,930	
Child and Adult Food Care Program		18,263	
		<u>18,263</u>	
Total Federal Agencies	\$		1,151,013

Contributions:

Individuals, churches, businesses, and foundation grants			1,393,317
--	--	--	-----------

Other Government Grants:

City of Suffolk		26,790	
County of Isle of Wight		8,000	
Human Services Grant (Norfolk)		201,339	
Human Services Grant (State)		383,200	
		<u>383,200</u>	
Total Other Government Grants			619,329

Donated Services			1,305
Contributed Property			312,571
United Way			230,145
			<u>230,145</u>
Total Support	\$		<u><u>3,707,680</u></u>

**FORKIDS, INC. AND SUBSIDIARIES
(A NONPROFIT ORGANIZATION)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

YEAR ENDED JUNE 30, 2013

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 Name of Federal Program or Cluster

14.235 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
(A NONPROFIT ORGANIZATION)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2013

Findings - Financial statement audit

None noted

Findings and questioned costs - Major federal award programs audit

None noted