

KIDS IN DISTRESSED SITUATIONS, INC.
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2010 and 2009

KIDS IN DISTRESSED SITUATIONS, INC.

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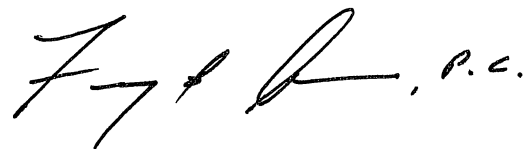
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kids in Distressed Situations, Inc.

We have audited the accompanying statements of financial position of Kids in Distressed Situations, Inc. as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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



May 25, 2011

**KIDS IN DISTRESSED SITUATIONS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 and 2009**

	ASSETS		
		<u>2010</u>	<u>2009</u>
Current Assets			
Cash and Cash Equivalents		\$ 1,947,437	\$ 2,022,750
Accounts Receivable, Net of Allowance for Doubtful Accounts		125,667	115,816
Prepaid Expenses		<u>9,813</u>	<u>5,767</u>
Total Current Assets		2,082,917	2,144,333
Property and Equipment, Net of Accumulated Depreciation		<u>7,060</u>	<u>8,926</u>
TOTAL ASSETS		<u>\$ 2,089,977</u>	<u>\$ 2,153,259</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts Payable and Accrued Expenses		\$ 186,942	\$ 361,552
Net Assets			
Unrestricted		1,893,035	1,791,707
Temporarily Restricted		<u>10,000</u>	<u>-</u>
Total Net Assets		<u>1,903,035</u>	<u>1,791,707</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 2,089,977</u>	<u>\$ 2,153,259</u>

The accompanying notes are an integral part of the financial statements.

**KIDS IN DISTRESSED SITUATIONS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
UNRESTRICTED NET ASSETS		
Support and Revenue		
Contributions	\$ 103,529,164	\$ 89,813,588
Special Event Revenue	1,096,475	1,228,454
Program Revenue	233,334	355,343
Interest Income	5,857	12,704
Net Assets Released from Restrictions	-	-
Total Support and Revenue	<u>104,864,830</u>	<u>91,410,089</u>
Expenses		
Program Services		
Merchandise Contributions	102,470,311	88,674,032
General Programs	<u>1,675,863</u>	<u>1,892,051</u>
Total Program Services	<u>104,146,174</u>	<u>90,566,083</u>
Fundraising	418,277	594,473
General and Administrative Support Services	<u>199,051</u>	<u>205,866</u>
Total Expenses	<u>104,763,502</u>	<u>91,366,422</u>
INCREASE IN UNRESTRICTED NET ASSETS	101,328	43,667
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	10,000	10,000
Net Assets Released from Restrictions	<u>-</u>	<u>-</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	10,000	-
PERMANENTLY RESTRICTED NET ASSETS	<u>-</u>	<u>-</u>
INCREASE IN NET ASSETS	111,328	43,667
Net Assets, Beginning of Year	<u>1,791,707</u>	<u>1,748,040</u>
NET ASSETS, END OF YEAR	<u>\$ 1,903,035</u>	<u>\$ 1,791,707</u>

The accompanying notes are an integral part of the financial statements.

**KIDS IN DISTRESSED SITUATIONS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 and 2009**

	2010	2009
Cash Provided (Used) by Operating Activities		
Cash Received from Supporters and Others	\$ 2,463,321	\$ 2,584,409
Cash Paid to Suppliers and Employees	(2,542,516)	(2,844,189)
Investment Income Received	5,857	12,704
Net Cash Provided (Used) by Operating Activities	(73,338)	(247,076)
Cash Provided (Used) by Investing Activities		
Purchases of Property and Equipment	(1,975)	(3,755)
Net Cash Provided (Used) by Investing Activities	(1,975)	(3,755)
Cash Provided (Used) by Financing Activities	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	(75,313)	(250,831)
Cash and Cash Equivalents, Beginning of Year	2,022,750	2,273,581
Cash and Cash Equivalents, End of Year	\$ 1,947,437	\$ 2,022,750

**RECONCILIATION OF INCREASE IN NET ASSETS TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Increase in Net Assets	\$ 111,328	\$ 43,667
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation	3,841	3,831
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(9,851)	(18,716)
Prepaid Expenses	(4,046)	20,274
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	(174,610)	(296,132)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (73,338)	\$ (247,076)

The accompanying notes are an integral part of the financial statements.

KIDS IN DISTRESSED SITUATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009

NOTE 1 - THE ORGANIZATION

Kids in Distressed Situations, Inc. was incorporated on December 10, 1985 under the laws of the State of New York and has been granted tax-exempt status under Internal Revenue Code Section 501(c)(3). The organization is a public charity organized to receive, administer and expend funds for charitable and educational purposes to provide relief to poor, distressed and underprivileged children and their families. The organization maintains its office at 112 West 34th Street, New York, New York.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

It is the policy of the organization to maintain their books on the accrual basis of accounting in accordance with generally accepted accounting principles.

Estimates

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives of the related assets using the straight line method.

Financial Statement Presentation

The organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. In addition, the organization is required to present a statement of cash flows.

The three classes of net assets are defined as follows:

Unrestricted net assets are resources not subject to supporter-imposed restrictions. These net assets are available to the organization for the purposes specified in its articles of incorporation or bylaws.

Temporarily restricted net assets are resources restricted by the supporter for a specific purpose or time period. Fulfillment of a temporary restriction causes the net assets to be reclassified as unrestricted.

Permanently restricted net assets are resources provided with the stipulation that the assets be used for a specific purpose, be preserved and not sold, or be invested to provide a permanent source of income.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support revenue depending on the existence and/or nature of any restrictions. The organization receives donated merchandise. The organization treats such materials as received when the organization has been granted explicit unilateral authority to dispose of such materials by transferring them to donee organizations. This merchandise is recorded at fair market value, as estimated by the donor, and is recognized as support revenue. Merchandise is expensed in the year distributed.

Income Taxes

The organization is a nonprofit organization and, as specified by Internal Revenue Code Section 501(c)(3), it is not a tax paying entity for federal and state income tax purposes. Accordingly, no income tax expense has been recorded in the financial statements.

The organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2007, 2008, 2009 and 2010 are subject to examination by the IRS, generally for three years after they are filed.

**KIDS IN DISTRESSED SITUATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

In accordance with FASB ASC 958-720-50, *Financial Statements of Not-for-Profit Organizations*, the organization reports its expenses by their functional classification in the statement of activities.

Statement of Cash Flows

The organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Subsequent Events

The organization did not have any subsequent events through May 25, 2011, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The organization maintains several bank accounts at three banks. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts, and are fully insured for non-interest bearing accounts through December 31, 2012. Cash at these institutions exceeded Federally insured limits. As of December 31, 2010 and 2009, the amount in excess of the FDIC limit totaled \$1,294,628 and \$1,381,621, respectively. The Organization has not experienced any losses in such accounts.

The amounts in excess per bank are as follows:

	2010	2009
HSBC Bank	\$ 409,604	\$ 293,685
JP Morgan Chase Bank, N.A.	885,024	1,087,936
	\$ 1,294,628	\$ 1,381,621

NOTE 4 - LETTER OF CREDIT

In lieu of a cash security deposit for an operating lease for office space, the organization has provided an unconditional, irrevocable letter of credit to the landlord. The organization, under the terms of a letter of credit with a bank, has agreed to maintain a compensating balance equal to the letter of credit.

At December 31, 2010, \$64,908 of cash is restricted for the letter of credit.

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable is stated at the amount the organization expects to collect. The organization maintains allowances for doubtful accounts for estimated losses resulting from the inability of contributors, supports and program participants to make required payments

Net Accounts Receivable consists of the following:

	2010	2009
Contributions	\$ 20,000	\$ -
Event Revenue	82,750	45,750
Program Revenue	22,917	77,941
	125,667	123,691
Allowance for Doubtful Accounts	-	(7,875)
	\$ 125,667	\$ 115,816

KIDS IN DISTRESSED SITUATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2010	2009
Furniture and Fixtures	\$ 1,691	\$ 1,691
Office Equipment	37,038	35,063
	38,729	36,754
Accumulated Depreciation	(31,669)	(27,828)
	\$ 7,060	\$ 8,926

For the years ended December 31, 2010 and 2009, depreciation expense was \$3,841 and \$3,831, respectively.

NOTE 7 - RETIREMENT PLAN

On September 21, 2006, the organization adopted a qualified deferred compensation plan (401(k) Plan) which covers all eligible employees.

For the year ended December 31, 2010 and 2009, employer plan contributions were \$15,932 and \$13,031, respectively.

NOTE 8 - CONTRIBUTIONS

As discussed in Note 2, the organization receives merchandise, from its supporters, for the purpose of redirecting the transferred merchandise to other donee organizations. The organization has been granted explicit unilateral authority to redirect this merchandise. The merchandise is required to be distributed to qualified donee organizations. For the years ended December 31, 2010 and 2009, the value of the merchandise is recorded as contribution revenue at its donor estimated fair value, which was \$102,470,311 and \$88,674,032, respectively.

In 2010, and 2009 the organization received donated advertising space valued at \$69,500 and \$174,155, respectively.. This amounts are included in contribution revenue.

During 2010, the Organization received a donor restricted contribution of \$10,000. Accordingly, the contribution is recorded as a temporarily restricted net asset.

NOTE 9 - RELATED PARTY

Association Headquarters, Inc., a professional association management company in which a director of the organization holds a beneficial interest, performs administrative and accounting services for the organization. The management company receives fees and reimbursement for certain general and administrative expenses.

For the years ended December 31, 2010 and 2009, amounts charged to the organization for fees and expense reimbursements were \$102,231 and \$103,539, respectively.

KIDS IN DISTRESSED SITUATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 and 2009

NOTE 10 - OPERATING LEASES

The organization leases office space under a lease expiring March 31, 2013.

Minimum future rental payments under the non-cancelable operating lease as of December 31, 2010 for each of the remaining years and in aggregate are:

Year Ending December 31,	
2011	\$ 141,869
2012	136,306
2013	<u>44,508</u>
	<u>\$ 332,683</u>

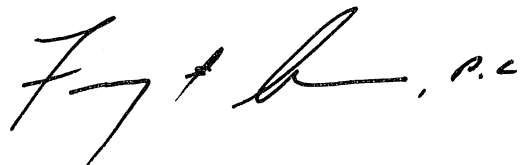
For the years ended December 31, 2010 and 2009, total rental expense was \$169,757 and \$168,741, respectively.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Kids in Distressed Situations, Inc.

Our report on our audits of the basic financial statements of Kids in Distressed Situations, Inc. for 2010 and 2009 appears on page 3. These audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of functional expenses for the years ended December 31, 2010 and 2009 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Fry & Allen, P.C." with a stylized flourish at the end.

May 25, 2011

KIDS IN DISTRESSED SITUATIONS, INC.
SCHEDULES OF FUNCTIONAL EXPENSES

	Year Ended December 31, 2010				Year Ended December 31, 2009			
	Total	Program Expenses	Fundraising Expenses	General and Administrative Expenses	Total	Program Expenses	Fundraising Expenses	General and Administrative Expenses
Merchandise Donations	\$ 102,470,311	\$ 102,470,311	\$ -	\$ -	\$ 88,674,032	\$ 88,674,032	\$ -	\$ -
Salaries	765,727	612,581	76,573	76,573	893,387	625,371	178,677	89,339
Freight Charges	515,563	515,563	-	-	270,497	270,497	-	-
Anniversary Celebration	272,330	81,699	163,397	27,234	705,740	494,018	211,722	-
Rent	169,767	118,830	33,961	16,976	169,741	118,119	33,748	16,874
Advertising and Promotion	124,340	62,170	62,170	-	192,982	96,491	96,491	-
Employee Benefits	66,343	53,075	6,634	6,634	80,140	56,098	16,028	8,014
Women's Luncheon Expen:	57,400	22,960	28,700	5,740	28,644	20,051	8,593	-
Management Fees	53,380	37,366	-	16,014	50,000	35,000	-	15,000
Taxes - Payroll	48,781	39,025	4,878	4,878	53,076	37,153	10,615	5,308
Trade Show Participation	42,599	42,599	-	-	38,481	38,481	-	-
Accounting and Auditing	23,841	-	-	23,841	20,000	-	-	20,000
Travel and Entertainment	20,368	16,294	4,074	-	17,921	12,545	3,584	1,792
Office Supplies and Expen:	17,856	12,499	3,571	1,786	11,933	8,353	2,387	1,193
Printing Expense	17,442	12,210	3,488	1,744	18,174	12,722	3,635	1,817
Telephone	15,695	10,986	3,139	1,570	15,601	10,921	3,120	1,560
Postage	13,177	9,224	2,635	1,318	15,499	10,849	3,100	1,550
Board and Committee Expe	7,882	3,941	-	3,941	7,152	3,576	-	3,576
Bad Debt Expense	7,875	787	7,088	-	9,873	6,911	2,962	-
Insurance	7,585	-	-	7,585	6,906	-	-	6,906
Marketing Expense	6,432	-	6,432	-	2,515	-	2,515	-
Bank Service Charges	5,864	586	5,278	-	12,929	-	-	12,929
Website	5,545	3,327	2,218	-	35,225	12,329	10,567	12,329
Haiti Earthquake Expenses	4,915	4,915	-	-	-	-	-	-
Equipment Rental	4,869	3,408	974	487	4,906	3,434	981	491
Depreciation	3,841	2,689	768	384	3,831	2,682	766	383
Photocopy Expense	2,663	1,864	533	266	2,180	1,526	436	218
Messenger Service	2,514	1,257	-	1,257	3,658	1,829	-	1,829
Payroll Processing	2,402	1,922	240	240	2,987	-	-	2,987
Computer Expenses	2,073	1,451	415	207	3,060	2,142	612	306
Miscellaneous	1,819	1,273	364	182	4,374	3,063	875	436
Newsletter Expense	1,690	1,183	338	169	6,308	4,415	1,262	631
Membership Expense	368	-	368	-	459	-	459	-
Fax Expense	255	179	51	25	727	509	145	73
Temps/Consultants/Interns	-	-	-	-	2,000	1,400	400	200
Press Clipping Expense	-	-	-	-	1,251	876	250	125
Salons for Cause Event	-	-	-	-	1,086	543	543	-
Youth Leadership Board	-	-	-	-	147	147	-	-
Total Expenses	\$ 104,763,502	\$ 104,146,174	\$ 418,277	\$ 199,051	\$ 91,366,422	\$ 90,566,083	\$ 594,473	\$ 205,866

See independent auditor's report on supplementary information.