

**Kids in Distressed Situations, Inc.**

Financial Statements

December 31, 2011 and 2010

## Independent Auditors' Report

### The Board of Directors Kids in Distressed Situations, Inc.

We have audited the accompanying statements of financial position of Kids in Distressed Situations, Inc. (the "Organization") as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year 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 audit. The 2010 financial statements of the Organization were audited by other auditors whose report dated May 25, 2011, expressed an unqualified opinion on those financial statements. The other auditors also expressed an unqualified opinion on the schedule of functional expenses for the year ended December 31, 2010.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2011, 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.

*O'Connor Davies, LLP*

New York, New York  
April 17, 2012

O'CONNOR DAVIES, LLP  
60 East 42nd Street, 36th Fl., New York, NY 10165 | Tel: 212.286.2600 | Fax: 212.286.4080 | [www.odpkf.com](http://www.odpkf.com)

O'Connor Davies, LLP is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

Kids in Distressed Situations, Inc.

Statements of Financial Position

	December 31	
	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,040,739	\$ 1,947,437
Contributions receivable, net	264,522	125,667
Prepaid expenses and other assets	9,055	9,813
Property and equipment, net	<u>14,245</u>	<u>7,060</u>
	<u>\$ 2,328,561</u>	<u>\$ 2,089,977</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 230,786	\$ 186,942
Net Assets		
Unrestricted	2,097,775	1,893,035
Temporarily restricted	<u>-</u>	<u>10,000</u>
	<u>2,097,775</u>	<u>1,903,035</u>
	<u>\$ 2,328,561</u>	<u>\$ 2,089,977</u>

See notes to financial statements

Kids in Distressed Situations, Inc.

Statements of Activities

	Year ended December 31, 2011		Year ended December 31, 2010	
	Unrestricted	Temporarily	Unrestricted	Temporarily
		Restricted		Restricted
<b>SUPPORT AND REVENUE</b>				
In-kind contributions	\$ 79,818,117	-	\$ 79,818,117	\$ -
Contributions, foundations	702,878	-	702,878	10,000
Contributions, corporations	37,671	-	37,671	-
Contributions, individuals	99,694	-	99,694	-
Contributions, federated campaigns	48,280	-	48,280	-
Special events, net of direct costs of \$391,768 and \$372,329	1,049,352	-	1,049,352	-
Program services	155,137	-	155,137	-
Interest income	4,368	-	4,368	-
Other	291,589	-	291,589	-
Net assets released from restrictions	10,000	(10,000)	-	-
Total Support and Revenue	82,217,086	(10,000)	82,207,086	104,492,500
<b>EXPENSES</b>				
Programs	81,605,703	-	81,605,703	-
Management and general	194,184	-	194,184	-
Fundraising	212,459	-	212,459	-
Total Expenses	82,012,346	-	82,012,346	-
Change in Net Assets	204,740	(10,000)	194,740	10,000
<b>NET ASSETS</b>				
Beginning of year	1,893,035	10,000	1,903,035	-
End of year	\$ 2,097,775	\$ -	\$ 2,097,775	\$ 1,893,035
				\$ 1,903,035

See notes to financial statements

**Kids in Distressed Situations, Inc.**

	Statement of Functional Expenses Year Ended December 31, 2011			Schedule of Functional Expenses Year Ended December 31, 2010				
	Programs	Management and General	Fundraising	Total	Programs	Management and General	Fundraising	Total
Merchandise donated	\$ 79,818,117	-	-	\$ 79,818,117	\$ 102,470,311	-	-	\$ 102,470,311
Freight charges	564,755	-	-	564,755	515,563	-	-	515,563
Salaries and wages	740,177	92,522	92,522	925,221	612,581	76,573	76,573	765,727
Payroll taxes and employee benefits	98,964	12,371	12,371	123,706	92,100	11,512	11,512	115,124
Advertising and promotion	94,835	-	7,898	102,733	62,170	-	68,602	130,772
Management fees	38,350	16,436	-	54,786	37,366	16,014	-	53,380
Accounting	-	31,221	-	31,221	-	23,841	-	23,841
Consulting fees	28,000	3,500	3,500	35,000	-	-	-	-
Office expenses	39,821	6,044	11,259	57,124	52,810	8,622	14,729	76,161
Information technology	10,067	492	5,399	15,958	4,778	207	2,633	7,618
Occupancy	122,124	17,446	34,893	174,463	118,830	16,976	33,951	169,757
Travel	12,652	-	3,163	15,815	16,294	-	4,074	20,368
Meetings	2,799	1,200	-	3,999	3,941	3,941	-	7,882
Disaster relief	14,374	-	-	14,374	4,915	-	-	4,915
Bad debt	4,372	-	39,348	43,720	787	-	7,088	7,875
Depreciation	3,336	477	953	4,766	2,689	384	768	3,841
Insurance	-	6,087	-	6,087	-	7,585	-	7,585
Bank fees	-	5,856	-	5,856	586	-	5,278	5,864
Miscellaneous	12,960	532	1,153	14,645	3,195	421	972	4,588
<b>Total Expenses</b>	<b>\$ 81,605,703</b>	<b>\$ 194,184</b>	<b>\$ 212,459</b>	<b>\$ 82,012,346</b>	<b>\$ 103,998,916</b>	<b>\$ 166,076</b>	<b>\$ 226,180</b>	<b>\$ 104,391,172</b>

See notes to financial statements

**Kids in Distressed Situations, Inc.**

Statements of Cash Flows

	December 31	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 194,740	\$ 111,328
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	4,765	3,841
Bad debts	43,720	7,875
Change in operating assets and liabilities		
Accounts receivable	(182,575)	(17,726)
Prepaid expenses and other assets	758	(4,046)
Accounts payable and accrued expenses	<u>43,844</u>	<u>(174,610)</u>
Net Cash from Operating Activities	<u>105,252</u>	<u>(73,338)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(11,950)</u>	<u>(1,975)</u>
Net Change in Cash and Cash Equivalents	93,302	(75,313)
 <b>CASH AND CASH EQUIVALENTS</b>		
Beginning of the year	<u>1,947,437</u>	<u>2,022,750</u>
End of the year	<u>\$ 2,040,739</u>	<u>\$ 1,947,437</u>

See notes to financial statements

## **Kids in Distressed Situations, Inc.**

Notes to Financial Statements  
December 31, 2011 and 2010

### **1. Organization and Tax Status**

Kids in Distressed Situations, Inc. ("the Organization") was incorporated on December 10, 1985 under the laws of the State of New York and has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

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.

### **2. Summary of Significant Accounting Policies**

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization's management to make certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Basis of Presentation***

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use is limited by donors to a specific time period or purpose. Permanently restricted net assets are limited by donors for investment in perpetuity.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include all highly liquid investments with maturities of three months or less when purchased and consist principally of funds maintained in checking and time deposit accounts.

#### ***Contributions Receivables***

The amount of allowance for doubtful accounts is based upon management's assessment of historical and expected net collections and other business and economic conditions.

#### ***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Costs incurred for repairs and maintenance are charged to expense as incurred. Depreciation is computed over the estimated useful lives of the related assets using the straight line method. The Organization capitalizes amounts over \$1,000 with a useful life greater than a year.

## Kids in Distressed Situations, Inc.

Notes to Financial Statements  
December 31, 2011 and 2010

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Contributions***

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any restrictions. The Organization receives donated merchandise and recognizes such materials as support and expense in the statement of activities 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 value, as estimated by the donor. Donated services rendered by volunteers are not recorded as support and expense because they do not meet the criteria for recognition in the financial statements.

#### ***Allocation of Expenses***

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Such allocations are determined by management in accordance with grant provisions or by another equitable basis.

#### ***Accounting for Uncertainty in Income Taxes***

The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition. The Organization is no longer subject to audits by the applicable taxing jurisdictions for tax years prior to December 31, 2008.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is April 17, 2012.

### 3. Accounts Receivable

Accounts receivable consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Contributions receivable	\$ 25,053	\$ 20,000
Event revenue	189,500	82,750
Program revenue	<u>93,689</u>	<u>22,917</u>
Total receivables	308,242	125,667
Less: Allowance for doubtful accounts	<u>(43,720)</u>	<u>-</u>
Receivables, net	<u>\$ 264,522</u>	<u>\$ 125,667</u>

## Kids in Distressed Situations, Inc.

Notes to Financial Statements  
December 31, 2011 and 2010

### 4. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Furniture and fixtures	\$ 1,691	\$ 1,691
Office equipment	<u>48,988</u>	<u>37,038</u>
	50,679	38,729
Accumulated depreciation	<u>(36,434)</u>	<u>(31,669)</u>
	<u>\$ 14,245</u>	<u>\$ 7,060</u>

### 5. 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 the letter of credit with a bank, has agreed to maintain a compensating balance equal to the letter of credit. At December 31, 2011 and 2010, \$64,908 of cash is restricted for the letter of credit.

### 6. Retirement Plan

The Organization has a deferred compensation plan (401(k) Plan) which covers all eligible employees. Pension expense for 2011 and 2010 was \$19,681 and \$15,932.

### 7. Temporarily Restricted Net Assets

Temporarily restricted net assets were released in 2011 to fund freight charges to distribute merchandise.

### 8. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist primarily of cash and cash equivalents. At times cash balances held at financial institutions may be in excess of federally insured limits. The Organization has not experienced any losses in such accounts.

### 9. In-Kind Contributions

The Organization receives merchandise from its supporters. The Organization has been granted explicit unilateral authority and is required to distribute this merchandise to qualified donee organizations. For 2011 and 2010, the value of the merchandise was recorded as contribution revenue at its fair value, which was \$79,818,117 and \$102,470,311.

In 2010, the Organization received donated advertising space valued at \$174,155, which is included in contribution revenue and advertising expense in the statement of activities. No donated advertising space was received in 2011.