

Kids in Distressed Situations, Inc.

Financial Statements

December 31, 2012 and 2011

Independent Auditors' Report**The Board of Directors
Kids in Distressed Situations, Inc.**

We have audited the accompanying financial statements of Kids in Distressed Situations, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Organization's preparation and fair presentation of the 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 Organization'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 financial statements referred to above present fairly, in all material respects, the financial position of Kids in Distressed Situations, Inc. as of December 31, 2012 and 2011, and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



September 19, 2013

O'CONNOR DAVIES, LLP

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Kids in Distressed Situations, Inc.

Statements of Financial Position

| | December 31, | |
|---------------------------------------|---------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 1,680,280 | \$ 2,040,739 |
| Accounts receivable, net | 160,196 | 264,522 |
| Prepaid expenses and other assets | 6,800 | 9,055 |
| Property and equipment, net | <u>8,278</u> | <u>14,245</u> |
| | <u>\$ 1,855,554</u> | <u>\$ 2,328,561</u> |
| | | |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 225,903 | \$ 230,786 |
| Net Assets | | |
| Unrestricted | <u>1,629,651</u> | <u>2,097,775</u> |
| | <u>\$ 1,855,554</u> | <u>\$ 2,328,561</u> |

See notes to financial statements

Kids in Distressed Situations, Inc.

Statements of Activities

| | Year ended December 31, 2012 | Year ended December 31, 2011 | | |
|---|------------------------------------|------------------------------|---------------------------|---------------------|
| | Total | Unrestricted | Temporarily Restricted | Total |
| SUPPORT AND REVENUE | | | | |
| Contributions, in-kind | \$104,139,402 | \$ 79,818,117 | \$ - | \$ 79,818,117 |
| Contributions, foundations | 529,231 | 702,878 | - | 702,878 |
| Contributions, corporations | 64,612 | 37,671 | - | 37,671 |
| Contributions, individuals | 449,977 | 220,125 | - | 220,125 |
| Contributions, federated campaigns | 29,179 | 48,280 | - | 48,280 |
| Special events, net of direct costs of \$430,432 and \$391,768 | 607,186 | 1,049,352 | - | 1,049,352 |
| Program services | - | 155,137 | - | 155,137 |
| Interest income | 2,820 | 4,368 | - | 4,368 |
| Other | 147,440 | 171,158 | - | 171,158 |
| Net assets released from restrictions | - | 10,000 | (10,000) | - |
| Total Support and Revenue | <u>105,969,847</u> | <u>82,217,086</u> | <u>(10,000)</u> | <u>82,207,086</u> |
| EXPENSES | | | | |
| Programs | 105,543,282 | 81,605,703 | - | 81,605,703 |
| Management and general | 435,890 | 194,184 | - | 194,184 |
| Fundraising | 458,799 | 212,459 | - | 212,459 |
| Total Expenses | <u>106,437,971</u> | <u>82,012,346</u> | <u>-</u> | <u>82,012,346</u> |
| Change in Net Assets | (468,124) | 204,740 | (10,000) | 194,740 |
| NET ASSETS | | | | |
| Beginning of year | <u>2,097,775</u> | <u>1,893,035</u> | <u>10,000</u> | <u>1,903,035</u> |
| End of year | <u>\$ 1,629,651</u> | <u>\$ 2,097,775</u> | <u>\$ -</u> | <u>\$ 2,097,775</u> |

See notes to financial statements

Kids in Distressed Situations, Inc.

Statements of Functional Expenses

| | Year Ended December 31, 2012 | | | | Year Ended December 31, 2011 | | | |
|-------------------------------------|------------------------------|------------------------------|-------------------|-----------------------|------------------------------|------------------------------|-------------------|----------------------|
| | Programs | Management and General | Fundraising | Total | Programs | Management and General | Fundraising | Total |
| Merchandise donated | \$ 104,139,402 | \$ - | \$ - | \$ 104,139,402 | \$ 79,818,117 | \$ - | \$ - | \$ 79,818,117 |
| Freight charges | 683,048 | - | - | 683,048 | 564,755 | - | - | 564,755 |
| Salaries and wages | 355,626 | 173,678 | 297,733 | 827,037 | 740,177 | 92,522 | 92,522 | 925,221 |
| Payroll taxes and employee benefits | 74,023 | 18,873 | 28,109 | 121,005 | 98,964 | 12,371 | 12,371 | 123,706 |
| Advertising and promotion | 73,081 | - | 37,690 | 110,771 | 94,835 | - | 7,898 | 102,733 |
| Management fees | 13,631 | 45,634 | - | 59,265 | 38,350 | 16,436 | - | 54,786 |
| Accounting | - | 23,500 | - | 23,500 | - | 31,221 | - | 31,221 |
| Consulting fees | 17,331 | 107,175 | - | 124,506 | 28,000 | 3,500 | 3,500 | 35,000 |
| Office expenses | 30,310 | 9,745 | 17,695 | 57,750 | 39,821 | 6,044 | 11,259 | 57,124 |
| Information technology | 7,281 | 1,905 | 3,993 | 13,179 | 10,067 | 492 | 5,399 | 15,958 |
| Occupancy | 79,918 | 39,030 | 66,908 | 185,856 | 122,124 | 17,446 | 34,893 | 174,463 |
| Travel | 16,178 | - | 4,045 | 20,223 | 12,652 | - | 3,163 | 15,815 |
| Meetings | 3,718 | 1,594 | - | 5,312 | 2,799 | 1,200 | - | 3,999 |
| Disaster relief | 44,822 | - | - | 44,822 | 14,374 | - | - | 14,374 |
| Bad debt | 100 | - | 900 | 1,000 | 4,372 | - | 39,348 | 43,720 |
| Depreciation | 4,177 | 597 | 1,193 | 5,967 | 3,336 | 477 | 953 | 4,766 |
| Insurance | - | 4,521 | - | 4,521 | - | 6,087 | - | 6,087 |
| Bank fees | - | 9,332 | - | 9,332 | - | 5,856 | - | 5,856 |
| Miscellaneous | 636 | 306 | 533 | 1,475 | 12,960 | 532 | 1,153 | 14,645 |
| Total Expenses | \$ 105,543,282 | \$ 435,890 | \$ 458,799 | \$ 106,437,971 | \$ 81,605,703 | \$ 194,184 | \$ 212,459 | \$ 82,012,346 |

See notes to financial statements

Kids in Distressed Situations, Inc.

Statements of Cash Flows

| | Year Ended December 31, | |
|--|-------------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (468,124) | \$ 194,740 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation | 5,967 | 4,765 |
| Bad debts | 1,000 | 43,720 |
| Change in operating assets and liabilities | | |
| Contributions receivable | 103,326 | (182,575) |
| Prepaid expenses and other assets | 2,255 | 758 |
| Accounts payable and accrued expenses | <u>(4,883)</u> | <u>43,844</u> |
| Net Cash from Operating Activities | <u>(360,459)</u> | <u>105,252</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | <u>-</u> | <u>(11,950)</u> |
| Net Change in Cash and Cash Equivalents | (360,459) | 93,302 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of the year | <u>2,040,739</u> | <u>1,947,437</u> |
| End of the year | <u>\$ 1,680,280</u> | <u>\$ 2,040,739</u> |

See notes to financial statements

Kids in Distressed Situations, Inc.

Notes to Financial Statements
December 31, 2012 and 2011

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.

In April 2013, the Board of Directors approved the merger of Fashion Delivers Charitable Foundation, Inc. ("Fashion Delivers"), a New York not-for-profit corporation, into the Organization, pending all appropriate regulatory approvals. The Organization will be the surviving entity and change its name to K.I.D.S./Fashion Delivers, Inc.

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.

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.

Allowance for Doubtful Accounts

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, 2012 and 2011

2. Summary of Significant Accounting Policies (continued)

Net Assets 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. The Organization did not have temporarily or permanently restricted net assets as of December 31, 2012.

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 or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for tax years prior to December 31, 2009.

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 September 19, 2013.

Kids in Distressed Situations, Inc.

Notes to Financial Statements
December 31, 2012 and 2011

3. Accounts Receivable

Accounts receivable consist of the following at December 31:

| | <u>2012</u> | <u>2011</u> |
|---------------------------------------|-------------------|-------------------|
| Contributions receivable | \$ 2,000 | \$ 25,053 |
| Event revenue | 149,196 | 189,500 |
| Program revenue | <u>10,000</u> | <u>93,689</u> |
| Total receivables | 161,196 | 308,242 |
| Less: Allowance for doubtful accounts | <u>(1,000)</u> | <u>(43,720)</u> |
| Receivables, net | <u>\$ 160,196</u> | <u>\$ 264,522</u> |

4. Property and Equipment

Property and equipment consist of the following at December 31:

| | <u>2012</u> | <u>2011</u> |
|--------------------------|-----------------|------------------|
| Furniture and fixtures | \$ 1,691 | \$ 1,691 |
| Office equipment | <u>48,988</u> | <u>48,988</u> |
| | 50,679 | 50,679 |
| Accumulated depreciation | <u>(42,401)</u> | <u>(36,434)</u> |
| | <u>\$ 8,278</u> | <u>\$ 14,245</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, 2012 and 2011, \$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 2012 and 2011 was \$14,947 and \$19,681.

7. Temporarily Restricted Net Assets

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

Kids in Distressed Situations, Inc.

Notes to Financial Statements
December 31, 2012 and 2011

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. Contributions In-kind

The Organization receives merchandise from its supporters and is required to distribute this merchandise to qualified donee organizations. For 2012 and 2011, the value of the merchandise was recorded as contribution revenue at its fair value, which was \$104,139,402 and \$79,818,117.

10. Related Party

A director of the Organization is also an officer of the professional association management company that performs administrative and accounting services for the Organization. The management company receives fees and reimbursement for certain general and administrative expenses. Management fees and expense reimbursements for 2012 and 2011 were \$67,984 and \$103,253.

11. Operating Leases

The Organization leased office space under a lease that expired March 31, 2013. Future minimum lease payments for 2013 amount to \$44,508. For 2012 and 2011, total rent expense was \$185,856 and \$174,463.

12. Subsequent Events

In August 2013, the Organization entered into a seven year lease expiring in July 2020 for a new office space in New York City.

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