

Kids in Distressed Situations, Inc.

Financial Statements

December 31, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012, 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.

O'Connor Davies, LLP

November 12, 2014

Kids in Distressed Situations, Inc.

Statements of Financial Position

	December 31,	
	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$1,549,449	\$1,680,280
Accounts receivable, net	86,841	160,196
Prepaid expenses and other assets	9,652	6,800
Property and equipment, net	<u>220,951</u>	<u>8,278</u>
	<u>\$ 1,866,893</u>	<u>\$ 1,855,554</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 278,120	\$ 225,903
Deferred rent	168,699	-
Loans payable	<u>40,352</u>	<u>-</u>
Total Liabilities	487,171	225,903
Net Assets		
Unrestricted	<u>1,379,722</u>	<u>1,629,651</u>
	<u>\$1,866,893</u>	<u>\$1,855,554</u>

See notes to financial statements

Kids in Distressed Situations, Inc.

Statements of Activities

	Year ended December 31,	
	2013	2012
SUPPORT AND REVENUE		
Contributions, in-kind	\$ 124,194,347	\$ 104,139,402
Contributions, foundations	420,127	529,231
Contributions, corporations	321,653	64,612
Contributions, individuals	288,438	449,977
Contributions, federated campaigns	29,263	29,179
Special events, net of direct costs of \$430,432 and \$391,768	553,906	607,186
Interest income	1,222	2,820
Other	139,375	147,440
Net assets released from restrictions	-	-
Total Support and Revenue	<u>125,948,331</u>	<u>105,969,847</u>
EXPENSES		
Programs	125,492,790	105,543,282
Management and general	291,036	435,890
Fundraising	414,434	458,799
Total Expenses	<u>126,198,260</u>	<u>106,437,971</u>
Change in Net Assets	(249,929)	(468,124)
NET ASSETS		
Beginning of year	<u>1,629,651</u>	<u>2,097,775</u>
End of year	<u>\$ 1,379,722</u>	<u>\$ 1,629,651</u>

See notes to financial statements

Kids in Distressed Situations, Inc.

Statements of Functional Expenses

	Year Ended December 31, 2013				Year Ended December 31, 2012			
	Programs	Management and General	Fundraising	Total	Programs	Management and General	Fundraising	Total
Merchandise donated	\$ 124,194,347	\$ -	\$ -	\$ 124,194,347	\$ 104,139,402	\$ -	\$ -	\$ 104,139,402
Freight charges	578,783			578,783.00	683,048			683,048
Salaries and wages	305,213	149,057	255,527	709,797.00	355,626	173,678	297,733	827,037
Payroll taxes and employee benefits	75,569	18,533	27,258	121,360	74,023	18,873	28,109	121,005
Advertising and promotion	4,087	-	1,985	6,072	73,081	-	37,690	110,771
Management fees	14,319	47,936	-	62,255	13,631	45,634	-	59,265
Accounting	-	-	23,955	23,955	-	23,500	-	23,500
Consulting fees	3,969	24,544	-	28,513	17,331	107,175	-	124,506
Office expenses	24,477	7,268	15,583	47,328	30,310	9,745	17,695	57,750
Information technology	9,662	2,429	4,779	16,870	7,281	1,905	3,993	13,179
Occupancy	100,342	35,093	60,160	195,595	79,918	39,030	66,908	185,856
Travel	16,199	-	4,050	20,249	16,178	-	4,045	20,223
Meetings	1,733	743	-	2,476	3,718	1,594	-	5,312
Disaster relief	140,806	-	-	140,806	44,822	-	-	44,822
Bad debt	700	-	6,300	7,000	100	-	900	1,000
Depreciation	9,786	1,219	2,439	13,444	4,177	597	1,193	5,967
Insurance	4,522	-	-	4,522	-	4,521	-	4,521
Bank fees	-	173	5,469	5,642	-	9,332	-	9,332
Miscellaneous	8,276	4,041	6,929	19,246	636	306	533	1,475
Total Expenses	\$ 125,492,790	\$ 291,036	\$ 414,434	\$ 126,198,260	\$ 105,543,282	\$ 435,890	\$ 458,799	\$ 106,437,971

See notes to financial statements

Kids in Distressed Situations, Inc.

Statements of Cash Flows

	Year Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (249,929)	\$ (468,124)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	13,444	5,967
Bad debts	7,000	1,000
Change in operating assets and liabilities		
Accounts receivable	66,355	103,326
Prepaid expenses and other assets	(2,852)	2,255
Accounts payable and accrued expenses	52,217	(4,883)
Deferred rent	28,484	-
Net Cash from Operating Activities	(85,281)	(360,459)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(85,902)	-
 CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds	41,667	-
Loan principal payments	(1,315)	-
Net Cash from Financing Activities	40,352	-
Net Change in Cash and Cash Equivalents	(130,831)	(360,459)
 CASH AND CASH EQUIVALENTS		
Beginning of the year	1,680,280	2,040,739
End of the year	\$ 1,549,449	\$ 1,680,280
 SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 173	\$ -
Non-cash investing activity		
Landlord concessions on leasehold improvements	140,215	-

See notes to financial statements

Kids in Distressed Situations, Inc.

Notes to Financial Statements
December 31, 2013 and 2012

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, 2013 and 2012

2. Summary of Significant Accounting Policies (continued)

Deferred Rent

U.S. GAAP requires that the rent of the life of a lease is expensed on a straight line basis notwithstanding the actual cash payments required under the lease, with the difference between the straight line expense and the actual rent payments shown as deferred rent liability on the statement of financial position.

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, 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 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, 2010.

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 November 12, 2014.

Kids in Distressed Situations, Inc.

Notes to Financial Statements
December 31, 2013 and 2012

3. Accounts Receivable

Accounts receivable consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Contributions receivable	\$ 4,819	\$ 2,000
Event revenue	81,673	149,196
Program revenue	<u>2,349</u>	<u>10,000</u>
Total receivables	88,841	161,196
Less: Allowance for doubtful accounts	<u>(2,000)</u>	<u>(1,000)</u>
Receivables, net	<u>\$ 86,841</u>	<u>\$ 160,196</u>

4. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$ 220,431	\$ -
Furniture and fixtures	1,691	1,691
Office equipment	<u>54,674</u>	<u>48,988</u>
	276,796	50,679
Accumulated depreciation	<u>(55,845)</u>	<u>(42,401)</u>
	<u>\$ 220,951</u>	<u>\$ 8,278</u>

5. Loans Payable

On August 2013, the Organization obtained a construction loan from the landlord of the newly leased space. The loan is to be repaid over an 84 month period at an interest rate of 2% per annum. Future payments are as follows:

2014	\$ 5,982
2015	6,102
2016	6,224
2017	6,349
2018	6,475
Thereafter	<u>11,633</u>
Total payments	42,765
Less interest	<u>(2,413)</u>
	<u>\$ 40,352</u>

6. 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, 2013 and 2012, \$67,014 and \$64,908 of cash is restricted for the letter of credit.

Kids in Distressed Situations, Inc.

Notes to Financial Statements
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7. Retirement Plan

The Organization has a deferred compensation plan (401(k) Plan) which covers all eligible employees. Pension expense for 2013 and 2012 was \$14,374 and \$14,947.

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 2013 and 2012, the value of the merchandise was recorded as contribution revenue at its fair value, which was \$124,194,347 and \$104,139,402.

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 2013 and 2012 were \$64,977 and \$67,984.

11. Operating Leases

The Organization leased office space under a lease that expired March 31, 2013. In August 2013, the Organization entered into a seven year lease expiring in July 2020. Future minimum lease payments are as follows:

2014	\$ 135,424
2015	138,810
2016	142,280
2017	145,837
2018	152,768
Thereafter	<u>256,568</u>
	<u>\$ 971,687</u>

The organization has a deferred rent liability of \$168,699 at December 31, 2013, which represents the excess of straight line rent expense over actual cash rent payments over the life of the lease. The recorded liability includes landlord concessions of \$140,217.

For 2013 and 2012, total rent expense was \$195,595 and \$185,856.

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