

**K.I.D.S./Fashion Delivers, Inc.  
(Formerly Kids in Distressed  
Situations, Inc.)**

Financial Statements

December 31, 2014 and 2013

## **Independent Auditors' Report**

### **The Board of Directors K.I.D.S./Fashion Delivers, Inc.**

We have audited the accompanying financial statements of K.I.D.S./Fashion Delivers, Inc. (the "Organization"), formerly Kids in Distressed Situations, Inc., which comprise the statements of financial position as of December 31, 2014 and 2013, 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 K.I.D.S./Fashion Delivers, Inc. as of December 31, 2014 and 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.

***Emphasis of Matter***

Effective April 7, 2014, Fashion Delivers Charitable Foundation, Inc., a tax-exempt organization under 501(c)(3) of the Internal Revenue Code, was merged into Kids In Distressed Situations, Inc. to form K.I.D.S./Fashion Delivers, Inc. See Note 12 for further details. Our opinion is not modified with respect to this matter

*O'Connor Davies, LLP*

November 5, 2015

**K.I.D.S./Fashion Delivers, Inc.**  
**(f/k/a Kids in Distressed Situations, Inc.)**

Statements of Financial Position

	December 31,	
	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,280,985	\$ 1,482,435
Accounts receivable, net	141,448	86,841
Prepaid expenses and other assets	28,745	9,652
Restricted cash	67,014	67,014
Property and equipment, net	178,687	220,951
	<u>\$ 2,696,879</u>	<u>\$ 1,866,893</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 334,117	\$ 278,120
Deferred rent	155,248	168,699
Loans payable	35,685	40,352
Total Liabilities	525,050	487,171
Net Assets		
Unrestricted	2,171,829	1,379,722
	<u>\$ 2,696,879</u>	<u>\$ 1,866,893</u>

See notes to financial statements

**K.I.D.S./Fashion Delivers, Inc.**  
**(f/k/a Kids in Distressed Situations, Inc.)**

Statements of Activities

	Year ended December 31,	
	<u>2014</u>	<u>2013</u>
<b>SUPPORT AND REVENUE</b>		
Contributions, in-kind	\$130,740,907	\$ 124,194,347
Contributions, foundations	238,356	420,127
Contributions, corporations	307,768	321,653
Contributions, individuals	140,551	288,438
Contributions, federated campaigns	-	29,263
Special events, net of direct costs of \$660,572 and \$184,319	1,713,204	553,906
Interest income	972	1,222
Other	75,364	139,375
Total Support and Revenue	<u>133,217,122</u>	<u>125,948,331</u>
<b>EXPENSES</b>		
Programs	132,473,973	125,492,790
Management and general	471,932	320,460
Fundraising	465,362	385,010
Total Expenses	<u>133,411,267</u>	<u>126,198,260</u>
Excess Revenue and Support Over Expenses	(194,145)	(249,929)
Contribution received in the merger of Fashion Delivers Charitable Foundation, Inc.	986,252	-
Change in Net Assets	792,107	(249,929)
<b>NET ASSETS</b>		
Beginning of year	<u>1,379,722</u>	<u>1,629,651</u>
End of year	<u>\$ 2,171,829</u>	<u>\$ 1,379,722</u>

See notes to financial statements

**K.I.D.S./Fashion Delivers, Inc.**  
**(f/k/a Kids in Distressed Situations, Inc.)**

Statements of Functional Expenses

	Year Ended December 31, 2014				Year Ended December 31, 2013			
	Programs	Management and General	Fundraising	Total	Programs	Management and General	Fundraising	Total
Merchandise donated	\$ 130,740,907	\$ -	\$ -	\$ 130,740,907	\$ 124,194,347	\$ -	\$ -	\$ 124,194,347
Freight charges	1,033,413	-	-	1,033,413	719,589	-	-	719,589
Salaries and wages	393,158	192,007	329,155	914,320	305,213	149,057	255,527	709,797
Payroll taxes and employee benefits	88,320	22,300	33,109	143,729	75,569	18,533	27,258	121,360
Advertising and promotion	6,866	-	4,314	11,180	4,087	-	1,985	6,072
Management fees	14,628	48,972	-	63,600	14,319	47,936	-	62,255
Accounting	-	40,552	-	40,552	-	23,955	-	23,955
Consulting fees	14,073	87,026	-	101,099	3,969	24,544	-	28,513
Office expenses	34,216	12,487	22,036	68,739	24,477	7,268	15,583	47,328
Information technology	13,184	2,594	6,633	22,411	9,662	2,429	4,779	16,870
Occupancy	55,576	27,142	46,529	129,247	100,342	35,093	60,160	195,595
Travel	11,439	-	2,860	14,299	16,199	-	4,050	20,249
Meetings	770	330	-	1,100	1,733	743	-	2,476
Bad debt	3	-	31	34	700	-	6,300	7,000
Depreciation	29,585	4,226	8,453	42,264	9,786	1,219	2,439	13,444
Insurance	5,586	-	-	5,586	4,522	-	-	4,522
Bank fees	-	27,154	-	27,154	-	5,642	-	5,642
Miscellaneous	32,249	7,142	12,242	51,633	8,276	4,041	6,929	19,246
<b>Total Expenses</b>	<b>\$ 132,473,973</b>	<b>\$ 471,932</b>	<b>\$ 465,362</b>	<b>\$ 133,411,267</b>	<b>\$ 125,492,790</b>	<b>\$ 320,460</b>	<b>\$ 385,010</b>	<b>\$ 126,198,260</b>

See notes to financial statements

**K.I.D.S./Fashion Delivers, Inc.**  
**(f/k/a Kids in Distressed Situations, Inc.)**

Statements of Cash Flows

	Year Ended December 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 792,107	\$ (249,929)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	42,264	13,444
Bad debts	34	7,000
Change in operating assets and liabilities		
Accounts receivable	(54,641)	66,355
Prepaid expenses and other assets	(19,093)	(2,852)
Accounts payable and accrued expenses	55,997	52,217
Deferred rent	(13,451)	28,484
Net Cash from Operating Activities	803,217	(85,281)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	-	(85,902)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan proceeds	-	41,667
Loan principal payments	(4,667)	(1,315)
Net Cash from Financing Activities	(4,667)	40,352
Net Change in Cash and Cash Equivalents	798,550	(130,831)
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of the year	1,482,435	1,613,266
End of the year	\$ 2,280,985	\$ 1,482,435
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 131	\$ 173
Non-cash investing activity		
Landlord concessions on leasehold improvements	\$ -	\$ 140,215
Non-cash financing activities		
Liabilities assumed	\$ 60,000	\$ -

See notes to financial statements

**K.I.D.S./Fashion Delivers, Inc.**  
**(Formerly Kids in Distressed Situations, Inc.)**

Notes to Financial Statements  
December 31, 2014 and 2013

**1. Organization and Tax Status**

K.I.D.S./Fashion Delivers, Inc. (“the Organization”), formerly 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 Section 501(c)(3) of the Internal Revenue Code.

The Organization is a public charity that receives, administers and expends products for charitable, educational, and disaster relief purposes to poor, distressed, and underprivileged children, individuals, and families. The organization maintains its office at 266 west 37th Street, New York, New York.

**2. Summary of Significant Accounting Policies**

***Reclassification***

Certain accounts in the 2013 financial statements have been reclassified to conform to the current year financial statement presentation.

***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.



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Notes to Financial Statements  
December 31, 2014 and 2013

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

***Deferred Rent***

Accounting principles generally accepted in the United States of America (“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, 2014 and 2013.

***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, 2011.

***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 5, 2015.

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Notes to Financial Statements  
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**3. Accounts Receivable**

Accounts receivable consist of the following at December 31:

	2014	2013
Grants and Contributions receivable	\$ 125,000	\$ 4,819
Event revenue	18,448	81,673
Program revenue	-	2,349
Total receivables	143,448	88,841
Less: Allowance for doubtful accounts	(2,000)	(2,000)
Receivables, net	\$ 141,448	\$ 86,841

**4. Property and Equipment**

Property and equipment consist of the following at December 31:

	2014	2013
Leasehold improvements	\$ 220,431	\$ 220,431
Furniture and fixtures	805	1,691
Office equipment	17,481	54,674
	238,717	276,796
Accumulated depreciation	(60,030)	(55,845)
	\$ 178,687	\$ 220,951

**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:

2015	\$	6,102
2016		6,224
2017		6,349
2018		6,475
2019		6,605
Thereafter		5,028
Total payments		36,783
Less interest		(1,098)
	\$	35,685

**K.I.D.S./Fashion Delivers, Inc.**  
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Notes to Financial Statements  
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**6. Restricted Cash**

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, 2014 and 2013, \$67,014 of cash is restricted for the letter of credit.

**7. Retirement Plan**

The Organization has a defined contribution pension plan under section 401(k) of the Internal Revenue Code ("401(k) Plan") which covers all eligible employees. Pension expense for 2014 and 2013 was \$9,706 and \$14,374.

**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 2014 and 2013, the value of the merchandise was recorded as contribution revenue at its fair value, which was \$130,740,907 and \$124,194,347.

**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 2014 and 2013 were \$63,600 and \$62,255.

**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:

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Notes to Financial Statements  
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**11. Operating Leases (continued)**

2015	\$ 138,810
2016	142,280
2017	145,837
2018	152,768
2019	161,186
Thereafter	<u>95,382</u>
	<u>\$ 836,263</u>

The organization has a deferred rent liability of \$155,248 and \$168,699 at December 31, 2014 and 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 \$140,215.

For 2014 and 2013, total rent expense was \$129,247 and \$195,595.

**12. Merger with Fashion Delivers Charitable Foundation, Inc.**

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.

In April 2014 all necessary regulatory approvals were obtained and on April 7, 2014, Fashion Delivers was merged into the Organization.

In accordance with U.S. GAAP guidance, the transaction is being accounted for as an acquisition as the Organization has obtained control over Fashion Delivers. The following table lists the assets and liabilities, measured at fair value on the date of acquisition and the net assets which represent the inherent contribution made to the Organization:

	Fair Value Date of Acquisition April 7, 2015
<b>ASSETS</b>	
Cash and cash equivalents	<u>1,046,252</u>
	<u>\$ 1,046,252</u>
<b>LIABILITIES AND NET ASSETS</b>	
Liabilities	
Accounts payable and accrued expenses	\$ 60,000
Net Assets	
Unrestricted	<u>986,252</u>
	<u>\$ 1,046,252</u>

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