

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

Financial Statements

December 31, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014, 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.

PKF O'Connor Davies, LLP
July 11, 2016

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

Statements of Financial Position

	December 31,	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 2,211,240	\$ 2,280,985
Accounts receivable, net	339,331	141,448
Prepaid expenses and other assets	36,202	28,745
Restricted cash	67,014	67,014
Property and equipment, net	145,051	178,687
	\$ 2,798,838	\$ 2,696,879
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 258,431	\$ 334,117
Deferred rent	138,411	155,248
Loans payable	29,451	35,685
Total Liabilities	426,293	525,050
 Net Assets		
Unrestricted	2,372,545	2,171,829
	\$ 2,798,838	\$ 2,696,879

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,	
	2015	2014
SUPPORT AND REVENUE		
Contributions, in-kind	\$ 130,970,700	\$ 130,740,907
Contributions, foundations	260,589	238,356
Contributions, corporations	518,508	307,768
Contributions, individuals	105,564	140,551
Special events, net of direct costs of \$581,529 and \$660,572	1,564,124	1,713,204
Interest income	759	972
Other	70,814	75,364
Total Support and Revenue	133,491,058	133,217,122
EXPENSES		
Programs	132,337,115	132,473,973
Management and general	443,269	471,932
Fundraising	509,958	465,362
Total Expenses	133,290,342	133,411,267
Revenue and Support Over (Under) Expenses	200,716	(194,145)
Contribution received in the merger of Fashion Delivers Charitable Foundation, Inc.	-	986,252
Change in Net Assets	200,716	792,107
NET ASSETS		
Beginning of year	2,171,829	1,379,722
End of year	\$ 2,372,545	\$ 2,171,829

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, 2015			Year Ended December 31, 2014		
	Programs	Management and General	Fundraising	Programs	Management and General	Fundraising
Merchandise donated	\$ 130,970,700	\$ -	\$ -	\$ 130,740,907	\$ -	\$ -
Freight charges	700,830	-	-	1,033,413	-	-
Salaries and wages	398,332	194,534	333,487	393,158	192,007	329,155
Payroll taxes and employee benefits	74,921	36,590	62,725	88,320	22,300	33,109
Advertising and promotion	5,813	-	3,876	6,866	-	4,314
Management fees	18,420	61,665	-	14,628	48,972	-
Accounting	-	48,640	-	-	40,562	-
Consulting fees	2,940	368	368	14,073	87,026	-
Office expenses	34,071	16,640	28,525	34,216	12,487	22,036
Information technology	16,201	2,314	4,629	13,184	2,594	6,633
Occupancy	56,793	27,736	47,548	55,576	27,142	46,529
Travel	7,245	-	1,811	11,439	-	2,860
Meetings	3,104	1,331	-	770	330	-
Bad debt	-	-	-	3	-	31
Depreciation	23,544	3,364	6,727	29,585	4,226	8,453
Insurance	-	8,016	-	5,586	-	-
Bank fees	-	30,252	-	-	27,154	-
Miscellaneous	24,201	11,819	20,262	32,249	7,142	12,242
	<u>\$ 132,337,115</u>	<u>\$ 443,269</u>	<u>\$ 509,958</u>	<u>\$ 132,473,973</u>	<u>\$ 471,932</u>	<u>\$ 465,362</u>
Total Expenses				<u>\$ 133,290,342</u>		<u>\$ 133,411,267</u>

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	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 200,716	\$ 792,107
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	33,635	42,264
Bad debts	-	34
Change in operating assets and liabilities		
Accounts receivable	(197,883)	(54,641)
Prepaid expenses and other assets	(7,457)	(19,093)
Accounts payable and accrued expenses	(75,686)	55,997
Deferred rent	(16,836)	(13,451)
Net Cash from Operating Activities	(63,511)	803,217
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan principal payments	(6,234)	(4,667)
Net Cash from Financing Activities	(6,234)	(4,667)
Net Change in Cash and Cash Equivalents	(69,745)	798,550
CASH AND CASH EQUIVALENTS		
Beginning of the year	2,280,985	1,482,435
End of the year	\$ 2,211,240	\$ 2,280,985
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 557	\$ 131
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, 2015 and 2014

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

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.

K.I.D.S./Fashion Delivers, Inc.
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Notes to Financial Statements
December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Deferred Rent

Accounting principles generally accepted in the United States of America (“GAAP”) requires that the rent over 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, 2015 and 2014.

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. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for tax years prior to December 31, 2012.

K.I.D.S./Fashion Delivers, Inc.
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Notes to Financial Statements
December 31, 2015 and 2014

3. Summary of Significant Accounting Policies (continued)

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 July 11, 2016.

4. Accounts Receivable

Accounts receivable consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Grants and Contributions receivable	\$ 165,000	\$ 125,000
Event revenue	<u>176,331</u>	<u>18,448</u>
Total receivables	341,331	143,448
Less: Allowance for doubtful accounts	<u>(2,000)</u>	<u>(2,000)</u>
Receivables, net	<u>\$ 339,331</u>	<u>\$ 141,448</u>

5. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 220,431	\$ 220,431
Furniture and fixtures	805	805
Office equipment	<u>17,481</u>	<u>17,481</u>
	238,717	238,717
Accumulated depreciation	<u>(93,666)</u>	<u>(60,030)</u>
	<u>\$ 145,051</u>	<u>\$ 178,687</u>

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Notes to Financial Statements
December 31, 2015 and 2014

6. Loans Payable

On August 2013, the Organization obtained a construction loan from its landlord for 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:

2016	\$ 6,224
2017	6,349
2018	6,475
2019	6,605
2020	<u>5,028</u>
Total payments	30,681
Less interest	<u>(1,230)</u>
	<u>\$ 29,451</u>

7. 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, 2015 and 2014, \$67,014 of cash is restricted for the letter of credit.

8. Retirement Plan

The Organization maintains a 401(k) employee benefit plan ("the Plan"), which is an employee benefit plan subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), and is intended to be a qualified plan under Section 401(k) of the Internal Revenue Code of 1986 (the "Code"). Participants in the Plan may contribute up to 100% of pretax income, subject to the legal limitation of \$18,000 and \$17,500 for 2015 and 2014, respectively, except for participants who were age 50 or older who may make an additional "catch-up" contribution under the "Safe Harbor Matching Election" to the Plan of up to \$6,000 and \$5,500 for 2015 and 2014, respectively. The Organization makes discretionary contributions to the Plan, which vest ratably over years 2-6 of service to the Organization. For the years ended December 31, 2015 and 2014, the discretionary contributions to the Plan totaled \$17,210 and \$9,706, respectively.

9. 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.

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Notes to Financial Statements
December 31, 2015 and 2014

10. Contributions In-kind

The Organization receives merchandise from its supporters and is required to distribute this merchandise to qualified done organizations. For 2015 and 2014, the value of the merchandise was recorded as contribution revenue at its fair value, which was \$130,970,700 and \$130,740,907.

11. 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 2015 and 2014 were \$80,085 and \$63,600.

12. Operating Leases

The Organization leases its office space under a seven year lease expiring in July 2020. Future minimum lease payments are as follows:

2016	\$ 142,280
2017	145,837
2018	152,768
2019	161,186
2020	<u>95,382</u>
	<u>\$ 697,453</u>

The organization has a deferred rent liability of \$138,411 and \$155,248 at December 31, 2015 and 2014, 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 2015 and 2014, total rent expense was \$132,077 and \$129,246.

13. Merger with Fashion Delivers Charitable Foundation, Inc.

On April 7, 2014, Fashion Delivers, a New York not-for-profit corporation, was merged into the Organization. The Organization is the surviving entity and changed its name to K.I.D.S./Fashion Delivers, Inc.

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.

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

Notes to Financial Statements
December 31, 2015 and 2014

13. Merger with Fashion Delivers Charitable Foundation, Inc. (continued)

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, 2014
ASSETS	
Cash and cash equivalents	\$ 1,046,252
	<u>\$ 1,046,252</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued expenses	\$ 60,000
Net Assets	
Unrestricted	<u>986,252</u>
	<u>\$ 1,046,252</u>

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