

K.I.D.S./Fashion Delivers, Inc.

Financial Statements

December 31, 2016 and 2015

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"), which comprise the statement of financial position as of December 31, 2016 and 2015, 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 entity'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 entity'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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PKF O'Connor Davies, LLP

June 14, 2017

K.I.D.S./Fashion Delivers, Inc.

Statement of Financial Position

	December 31,	
	2016	2015
ASSETS		
Cash	\$ 1,995,389	\$ 2,211,240
Accounts receivable, net	357,263	339,331
Prepaid expenses and other assets	58,304	36,202
Restricted cash	67,014	67,014
Property and equipment, net	<u>124,035</u>	<u>145,051</u>
	<u>\$ 2,602,005</u>	<u>\$ 2,798,838</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 179,776	\$ 258,431
Deferred rent	118,103	138,411
Loan payable	<u>23,677</u>	<u>29,451</u>
Total Liabilities	<u>321,556</u>	<u>426,293</u>
Net Assets		
Unrestricted	2,230,449	2,372,545
Temporarily restricted	<u>50,000</u>	<u>-</u>
Total Net Assets	<u>2,280,449</u>	<u>2,372,545</u>
	<u>\$ 2,602,005</u>	<u>\$ 2,798,838</u>

See notes to financial statements

K.I.D.S./Fashion Delivers, Inc.

Statement of Activities

	Year Ended December 31,			2015 Total
	Unrestricted	Temporarily Restricted	2016 Total	
SUPPORT AND REVENUE				
Contributions, in-kind	\$ 214,525,287	\$ -	\$ 214,525,287	\$ 130,970,700
Contributed professional services, in-kind	121,121	-	121,121	-
Contributions, foundations	145,860	-	145,860	260,589
Contributions, corporations	522,143	-	522,143	518,508
Contributions, individuals	115,405	50,000	165,405	105,564
Special events, net of direct costs of \$479,059 and \$604,962	1,617,492	-	1,617,492	1,540,691
Interest income	893	-	893	759
Other	63,531	-	63,531	70,814
Total Support and Revenue	<u>217,111,732</u>	<u>50,000</u>	<u>217,161,732</u>	<u>133,467,625</u>
EXPENSES				
Programs	216,145,662	-	216,145,662	132,337,115
Management and general	631,425	-	631,425	419,836
Fundraising	476,741	-	476,741	509,958
Total Expenses	<u>217,253,828</u>	<u>-</u>	<u>217,253,828</u>	<u>133,266,909</u>
Change in Net Assets	(142,096)	50,000	(92,096)	200,716
NET ASSETS				
Beginning of year	<u>2,372,545</u>	<u>-</u>	<u>2,372,545</u>	<u>2,171,829</u>
End of year	<u>\$ 2,230,449</u>	<u>\$ 50,000</u>	<u>\$ 2,280,449</u>	<u>\$ 2,372,545</u>

See notes to financial statements

K.I.D.S./Fashion Delivers, Inc.

Statement of Functional Expenses

	Year Ended December 31, 2016				Year Ended December 31, 2015			
	Programs	Management and General	Fundraising	Total	Programs	Management and General	Fundraising	Total
Merchandise donated	\$ 214,525,287	\$ -	\$ -	\$ 214,525,287	\$ 130,970,700	\$ -	\$ -	\$ 130,970,700
Contributed professional services	-	121,121	-	121,121	-	-	-	-
Freight charges	711,659	-	-	711,659	700,830	-	-	700,830
Salaries and wages	578,807	253,662	293,618	1,126,087	398,332	194,534	333,487	926,353
Payroll taxes and employee benefits	97,528	43,983	49,720	191,231	74,921	36,590	62,725	174,236
Advertising and promotion	20,439	-	13,626	34,065	5,813	-	3,876	9,689
Management fees	10,175	81,397	10,175	101,747	18,420	61,665	-	80,085
Accounting	-	32,000	-	32,000	-	48,640	-	48,640
Consulting fees	20,843	6,536	7,389	34,768	2,940	368	368	3,676
Office expenses	44,878	20,239	22,879	87,996	34,071	16,640	28,525	79,236
Information technology	10,664	4,809	5,436	20,909	16,201	2,314	4,629	23,144
Occupancy	67,439	30,414	34,381	132,234	56,793	27,736	47,548	132,077
Travel	20,629	-	5,157	25,786	7,245	-	1,811	9,056
Meetings	3,513	1,506	-	5,019	3,104	1,331	-	4,435
Bad debt	-	12,000	-	12,000	-	-	-	-
Depreciation and amortization	17,321	7,811	8,830	33,962	23,544	3,364	6,727	33,635
Insurance	-	6,710	-	6,710	-	8,016	-	8,016
State registration fees	-	-	17,129	17,129	10,334	5,047	8,652	24,033
Bank fees	-	1,369	-	1,369	-	6,819	-	6,819
Miscellaneous	16,480	7,868	8,401	32,749	13,867	6,772	11,610	32,249
Total Expenses	\$ 216,145,662	\$ 631,425	\$ 476,741	\$ 217,253,828	\$ 132,337,115	\$ 419,836	\$ 509,958	\$ 133,266,909

See notes to financial statements

K.I.D.S./Fashion Delivers, Inc.

Statement of Cash Flows

	Year Ended December 31	
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (92,096)	\$ 200,716
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	33,962	33,635
Deferred rent	(20,308)	(16,836)
Bad debts	12,000	-
Change in operating assets and liabilities		
Accounts receivable	(29,932)	(197,883)
Prepaid expenses and other assets	(22,102)	(7,457)
Accounts payable and accrued expenses	<u>(78,655)</u>	<u>(75,686)</u>
Net Cash from Operating Activities	(197,131)	(63,511)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(12,946)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments on loan payable	<u>(5,774)</u>	<u>(6,234)</u>
Net Change in Cash	(215,851)	(69,745)
CASH		
Beginning of the year	<u>2,211,240</u>	<u>2,280,985</u>
End of the year	<u>\$ 1,995,389</u>	<u>\$ 2,211,240</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 440</u>	<u>\$ 557</u>

See notes to financial statements

K.I.D.S./Fashion Delivers, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

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.

On April 5, 2017 the Organization applied to change its name to Delivering Good, Inc., which was approved by the Secretary of the State of New York, effective May 8, 2017.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Accordingly, actual results could differ from those estimates.

Allowance for Doubtful Accounts

An estimated allowance for doubtful accounts is provided when necessary, 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 provided using the straight-line method over the estimated useful lives that range from 3 to 5 years. Leasehold improvements are amortized over the shorter of the useful life of the asset or related lease period. The Organization capitalizes amounts over \$1,000 with a useful life greater than a year.

Asset Recoverability

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amounts of the asset to aggregate future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There is no such impairment for the years ended December 31, 2016 and 2015.

K.I.D.S./Fashion Delivers, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Deferred Rent

U.S. GAAP requires that the rent over the life of a lease be 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. The cumulative balance for deferred rent at December 31, 2016 and 2015 of \$118,103 and \$138,411, respectively, are reported in the accompanying statement of financial position. In addition, the liability initially recorded included landlord concessions of \$140,215.

Net Asset Presentation

The financial statements report net assets separately by class of net assets. Unrestricted net assets are those that are not subject to donor-imposed or time restriction stipulations. Temporarily restricted net assets represent contributions with donor-imposed restrictions that have not yet been satisfied. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Permanently restricted net assets are those which are established by donor gifts to provide a permanent endowment. The Organization did not have any permanently restricted net assets as of December 31, 2016 and 2015.

Contributions

Contributions and unconditional promises to give are measured at their fair values when received and are classified as unrestricted, temporarily restricted, or permanently restricted support, based on donor-imposed stipulations, if any. If donor restrictions are met within the same reporting period as when the contributions were made, those contributions are recorded as unrestricted support.

Contributions In-kind

The Organization receives donated merchandise as part of program services 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 in the accompanying financial statements at their fair value, as estimated by the donor and management on the date of use or receipt to the extent that such amounts can be reasonably estimated.

Contributed services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind contributions are reflected in the accompanying statement of activities at their fair value at the time the services are rendered.

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.

K.I.D.S./Fashion Delivers, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

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

Special Events

Revenues and expenses incurred relative to special events are recognized upon occurrence of the respective event. Revenues are shown net of cost of direct benefits to donors.

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.

Advertising Costs

Advertising costs are expensed as incurred.

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 and/or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for tax years prior to December 31, 2013.

Reclassifications

Certain amounts contained in the 2015 financial statements have been reclassified to conform to the 2016 presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

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 June 14, 2017.

On April 5, 2017 the Organization applied to change its name to Delivering Good, Inc., which was approved by the Secretary of the State of New York, effective May 8, 2017.

3. Accounts Receivable

Accounts receivable consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Grants and contributions receivable	\$ 173,813	\$ 165,000
Event revenue receivables	<u>183,450</u>	<u>176,331</u>
Total Receivables	357,263	341,331
Less: Allowance for doubtful accounts	<u>-</u>	<u>(2,000)</u>
Accounts Receivable, net	<u>\$ 357,263</u>	<u>\$ 339,331</u>

K.I.D.S./Fashion Delivers, Inc.

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4. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 220,431	\$ 220,431
Furniture and fixtures	805	805
Office equipment	<u>30,427</u>	<u>17,481</u>
	251,663	238,717
Accumulated depreciation and amortization	<u>(127,628)</u>	<u>(93,666)</u>
	<u>\$ 124,035</u>	<u>\$ 145,051</u>

5. Loan Payable

On August 2013, the Organization obtained a construction loan from its landlord for newly leased space. The loan is to be repaid over an 84 month period at an interest rate of 2% per annum. Future payments for the years ending December 31 are payable as follows:

2017	\$ 6,349
2018	6,475
2019	6,605
2020	<u>5,028</u>
Total payments	24,457
Less interest	<u>(780)</u>
	<u>\$ 23,677</u>

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, which expires on September 20, 2017. 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, 2016 and 2015, \$67,014 of cash is restricted for the letter of credit.

7. 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 limitations, 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. 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, 2016 and 2015, the discretionary contributions to the Plan totaled \$22,283 and \$17,210, respectively.

K.I.D.S./Fashion Delivers, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

8. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash. The Organization maintains its cash with financial institutions held in checking and savings accounts, which is 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 organizations. Donated merchandise is reported as in-kind contributions on the accompanying statement of activities in the amount of \$214,525,287 and \$130,970,700 for the years ended December 31, 2016 and 2015, respectively. The value of the merchandise was recorded at its fair value as of the date of receipt.

10. Related Party Transactions

In 2015 a director of the Organization was also an officer of the professional association management company that performed administrative and accounting services for the Organization. During 2015 this officer resigned as a director of the Organization. The management company received fees and reimbursement for certain general and administrative expenses. Management fees and expense reimbursements for services provided during 2015 amounted to \$18,480 and \$80,085 for the years ending December 31, 2016 and 2015, respectively. This company no longer provides services to the Organization.

Members of the Board of Directors are affiliated with companies that donate product and cash contributions to the Organization. Donated products from these companies for 2016 and 2015 totaled \$12,624,508 and \$12,516,767 respectively, which are included and reported as in-kind contributions on the accompanying statement of activities. Revenue from these companies are included as contributions in the accompanying statement of activities in the amount of \$626,231 and \$541,880 in 2016 and 2015, respectively.

11. Operating Lease

The Organization leases its office space under a seven year lease expiring in July 2020. Future minimum lease payments for the years ending December 31 are payable as follows:

2017	\$ 145,837
2018	152,768
2019	161,186
2020	95,382
	<u>\$ 555,173</u>

The lease contains escalation clauses based on increases in real estate taxes and utility expenses.

For 2016 and 2015, total rent expense was \$132,234 and \$132,077, respectively.

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