SCHALL & ASHENFARB Certified Public Accountants, LLC

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ROOM TO GROW NATIONAL, INC.

Audited Financial Statements

December 31, 2017

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Independent Auditor's Report

To the Board of Directors of
Room to Grow National, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Room to Grow National, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from 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 auditor's 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Room to Grow National, Inc. as of December 31, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

April 24, 2018

ROOM TO GROW NATIONAL, INC.
STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2017
(With comparative totals at December 31, 2016)

	12/31/17	12/31/16
Assets		
Cash and cash equivalents	$5,694,753	$5,315,532
Pledges receivable	394,882	236,615
Inventory - baby items	661,063	695,953
Prepaid expenses and other assets	61,213	53,305
Security deposit	116,164	116,164
Property and equipment, net (Note 3)	460,142	464,898
Total assets	$7,388,217	$6,882,467
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$141,571	$134,689
Deferred rent	39,435	51,805
Total liabilities	181,006	186,494
Net assets:		
Unrestricted	5,409,397	4,446,340
Temporarily restricted (Note 4)	1,797,814	2,249,633
Total net assets	7,207,211	6,695,973
Total liabilities and net assets	$7,388,217	$6,882,467

The attached notes and auditor's report are an integral part of these financial statements.

ROOM TO GROW NATIONAL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With comparative totals for the year ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Total 12/31/17	Total 12/31/16
Support and revenue:				
Contributions	$1,488,576	$1,074,284	$2,562,860	$3,073,494
Contributions - in-kind baby items	537,383		537,383	490,932
Special event income (net of expenses with a direct benefit to donors (Note 5)	1,014,784		1,014,784	1,201,705
Contributed services			0	30,900
Other income	13,247		13,247	345
Loss on obsolete inventory - baby items	(171,482)		(171,482)	(10,499)
Net assets released from restrictions	1,526,103	(1,526,103)	0	0
Total support, revenue and losses	4,408,611	(451,819)	3,956,792	4,786,877
Expenses:				
Program services	2,469,559		2,469,559	2,027,001
Supporting services:				
Management and general	461,182		461,182	435,557
Fundraising	514,813		514,813	487,165
Total supporting services	975,995	0	975,995	922,722
Total expenses	3,445,554	0	3,445,554	2,949,723
Change in net assets	963,057	(451,819)	511,238	1,837,154
Net assets - beginning of year	4,446,340	2,249,633	6,695,973	4,858,819
Net assets - end of year	$5,409,397	$1,797,814	$7,207,211	$6,695,973

The attached notes and auditor's report are an integral part of these financial statements.

ROOM TO GROW NATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With comparative totals for the year ended December 31, 2016)

		Supporting Services				
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses 12/31/17	Total Expenses 12/31/16
Salaries	$1,181,990	$147,754	$251,521	$399,275	$1,581,265	$1,167,849
Payroll taxes and benefits	169,718	21,216	36,116	57,332	227,050	158,339
Distribution of baby items (including in-kind)	400,791				400,791	395,845
Program expense	26,188				26,188	25,915
Grants	39,000			0	39,000	0
Occupancy	340,839	42,606	72,527	115,133	455,972	478,712
Storage (including in-kind)	37,708			0	37,708	17,395
Professional fees (including in-kind)	32,378	183,840	7,515	191,355	223,733	320,814
Office supplies	52,210	6,526	11,110	17,636	69,846	73,416
Insurance	13,188	1,648	2,806	4,454	17,642	16,302
Telephone	13,835	1,729	2,944	4,673	18,508	13,900
Other event expenses (Note 5)			85,492	85,492	85,492	147,586
Postage and delivery	4,711	589	1,003	1,592	6,303	3,160
Printing and production		10,369	10,370	20,739	20,739	16,087
Travel and meals	60,261	7,532	12,823	20,355	80,616	57,417
Bank fees		25,280		25,280	25,280	5,366
Other	4,832	604	1,028	1,632	6,464	5,333
Dues and subscriptions	24,772	3,097	5,271	8,368	33,140	15,253
Depreciation	67,138	8,392	14,287	22,679	89,817	31,034
Total expenses	$2,469,559	$461,182	$514,813	$975,995	$3,445,554	$2,949,723

The attached notes and auditor's report are an integral part of these financial statements.

ROOM TO GROW NATIONAL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(With comparative totals for the year ended December 31, 2016)

	12/31/17	12/31/16
Cash flows from operating activities:		
Change in net assets	$511,238	$1,837,154
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	89,817	31,034
Loss on obsolete inventory - baby items	171,482	10,499
Changes in operating assets and liabilities:		
Pledges receivable	(158,267)	49,081
Inventory-baby items	(136,592)	(95,087)
Prepaid expenses and other assets	(7,908)	(8,780)
Security deposit	0	(24,000)
Accounts payable and accrued expenses	6,882	59,701
Deferred rent	(12,370)	(11,591)
Total adjustments	(46,956)	10,857
Net cash flows provided by operating activities	464,282	1,848,011
Cash flows from investing activities:		
Purchases of fixed assets	(85,061)	(392,382)
Net cash flows used for investing activities	(85,061)	(392,382)
Net increase in cash and cash equivalents	379,221	1,455,629
Cash and cash equivalents - beginning of year	5,315,532	3,859,903
Cash and cash equivalents - end of year	$5,694,753	$5,315,532
Supplemental disclosures:		
Interest and taxes paid	$0	$0

The attached notes and auditor's report are an integral part of these financial statements.

ROOM TO GROW NATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 1 - Organization

Room to Grow National, Inc. (the "Organization") provides parents raising babies in poverty with one-on-one parenting support and essential baby items throughout their children's critical first three years of life. Parents expecting a baby are referred to Room to Grow by selected prenatal programs assisting low-income families. Upon their referral, parents visit Room to Grow's warm and inviting space once every three months from just before the birth of the baby until their child turns three. During their one-on-one appointments with staff clinicians, typically lasting two hours, parents receive developmental information, customized support, and all of the needed baby items to ensure a healthy and secure start for their child.

The Organization has been notified by the Internal Revenue Service that it is a not-for-profit organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and has not been determined to be a private foundation as defined in Section 509(a).

Note 2 - Summary of Significant Accounting Policies

a. <u>Basis of Accounting</u>
The financial statements have been prepared on the accrual basis of accounting which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

b. <u>Basis of Presentation</u>
The Organization reports information regarding their financial position and activities according to the following classes of net assets:

- *Unrestricted* – represents all activity without donor-imposed restrictions as well as activity with donor-imposed restrictions, which expire within the same period.

- *Temporarily restricted* – relates to contributions of cash and other assets with donor stipulations that make clear the assets' restriction, either due to a program nature or by the passage of time.

Donor-restricted support has been reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or 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 restrictions. However, contributions whose restrictions expire in the same year they were received, and contributions received without restrictions are recorded in the unrestricted class of net assets.

c. Cash and Cash Equivalents

The Organization considers cash held in checking accounts and money market funds with a maturity of three months or less to be cash and cash equivalents.

d. Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentration of credit risk consist of cash accounts which are placed with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. While at year end the Organization had material uninsured balances, management feels they have little risk and has not experienced any losses due to bank failure.

e. Pledges Receivable

Pledges that are expected to be received in less than one year are recorded at net realizable value. Those that are due in greater than one year are recorded at fair value which is calculated using risk adjusted present value techniques, if material. Long term pledges are treated as time restricted until the period they are due, at which time they will be released from restriction.

Based on historical experience and a specific review of outstanding receivables, management has deemed that no allowance for doubtful accounts is necessary.

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

At December 31, 2017, pledges receivables are due as follows:

Year ending:	December 31, 2018	$374,882
	December 31, 2019	10,000
	December 31, 2020	10,000
Total		$394,882

Due to its immaterial nature, no discount to present value has been taken.

f. Inventory – Baby Items

The Organization receives donated baby items that are used to provide program participants with vital supplies needed. Inventory that is donated is recorded at fair value as of the date of donation. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. exit price) in an orderly transaction between market participants at the measurement date.

Inventory is grouped into homogenous categories and estimates are computed based on average prices on recognized exchanges for similar goods. Inventory is valued at the lower of carrying value (average cost/donated value) or fair value.

g. Property and Equipment

Purchases of furniture, equipment, and other fixed assets that have a useful life of greater than one year are capitalized at cost or, if donated, at their fair value at the date of the gift. Property and equipment is depreciated using the straight-line method over the estimated useful life of the asset.

h. Deferred Rent

Rent expense is recognized evenly over the life of the lease using the straight-line method. In the earlier years of the lease, as rent expense exceeds amounts paid, a deferred rent liability is created. In later years of the lease, as payments exceed the amount of expense recognized, deferred rent will be reduced until it is zero at the end of the lease.

i. Contributed Services

Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided in-kind.

The Organization received donated professional fees for board development and restructuring, architect, design services and strategic planning that totaled $30,900 during the year ended December 31, 2016. There was no material amount of donated professional fees received during the year ended December 31, 2017.

Board members and other individuals volunteer their time and perform a variety of tasks that assist the Organization. These services have not been recorded in the financial statements because they do not meet the criteria for recognition as outlined above.

j. Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

k. Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

l. Accounting for Uncertainty of Income Taxes

The Organization does not believe its financial statements include any material uncertain tax positions. Tax filings for periods ending December 31, 2014 and later are subject to examination by applicable taxing authorities.

m. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

n. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through April 24, 2018, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

o. New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU, which becomes effective for the December 31, 2018 fiscal year, with early implementation permitted, focuses on improving the current net asset classification requirements and information presented in the financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows.

In addition, FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the December 31, 2020 fiscal year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding "right to use asset" on the statement of financial position.

The Organization has not yet evaluated the impact these standards will have on future financial statements.

Note 3 - Property and Equipment

Property and equipment consist of the following:

	12/31/17	12/31/16	Estimated Useful Life
Furniture and fixtures	$160,070	$148,517	*5 to 7 years*
Office equipment	36,644	36,644	*5 years*
Leasehold improvements	638,850	565,342	*Life of lease*
	835,564	750,503	
Less: accumulated depreciation	(375,422)	(285,605)	
Net: property and equipment	$460,142	$464,898	

Note 4 - Temporarily Restricted Net Assets

Activity in the temporarily restricted class of net assets can be summarized as follows:

	December 31, 2017			
	1/1/17	New Contributions	Released from Restriction	12/31/17
Clinical services and other projects	$589,500	$390,000	($231,996)	$747,504
Capital campaign	250	0	(250)	0
Program evaluation	370,118	51,549	(31,357)	390,310
Time restrictions	1,289,765	632,735	(1,262,500)	660,000

Total	$2,249,633	$1,074,284	($1,526,103)	$1,797,814

	December 31, 2016			
	1/1/16	New Contributions	Released from Restriction	12/31/16
Clinical services and other projects	$150,400	$650,000	($210,900)	$589,500
Capital campaign	355,000	19,675	(374,425)	250
Program evaluation	140,500	323,451	(93,833)	370,118
Time restrictions	1,512,500	577,265	(800,000)	1,289,765
Total	$2,158,400	$1,570,391	($1,479,158)	$2,249,633

Note 5 - Special Events

The Organization had special events in New York and Boston. They are summarized as follows:

	December 31, 2017		
	Boston	New York	Total
Gross revenue	$473,391	$744,025	$1,217,416
Less: expenses with a direct benefit to donors	(83,134)	(119,498)	(202,632)
	390,257	624,527	1,014,784
Less: other event expenses	(51,135)	(34,357)	(85,492)
Net income from special events	$339,122	$590,170	$929,292

	December 31, 2016		
	Boston	New York	Total
Gross revenue	$557,386	$790,439	$1,347,825
Less: expenses with a direct benefit to donors	(66,248)	(79,872)	(146,120)
	491,138	710,567	1,201,705
Less: other event expenses	(83,446)	(64,140)	(147,586)
Net income from special events	$407,692	$646,427	$1,054,119

Note 6 - Retirement Plan

The Organization has a retirement plan under IRS Section 403(b). After a waiting period of three months, all full-time employees may elect to defer a portion of their salary and contribute to this plan up to statutory amounts. The employer is not required to match and therefore has not incurred any expense.

Note 7 - Commitments

The Organization occupies office space in Boston under a non-cancelable lease which expires on January 31, 2019 and in New York under a non-cancelable lease for office space which expires on June 30, 2023.

Future minimum payments are as follows:

Year ending:	December 31, 2018	$404,538
	December 31, 2019	247,533
	December 31, 2020	239,570
	December 31, 2021	246,757
	December 31, 2022	257,915
	Thereafter	132,714
Total		$1,529,027