SCHALL & ASHENFARB Certified Public Accountants, LLC

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ROOM TO GROW NATIONAL, INC.

Audited Financial Statements

December 31, 2015

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Independent Auditors' 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, 2015, 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.

Auditors' 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 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.

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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, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 11, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 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

May 11, 2016

ROOM TO GROW NATIONAL, INC.
STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2015
(With comparative totals at December 31, 2014)

	12/31/15	12/31/14
Assets		
Cash and cash equivalents	$3,859,903	$1,599,819
Pledges receivable	285,696	244,852
Inventory - baby items	611,365	488,837
Prepaid expenses and other assets	44,525	44,250
Security deposit	92,164	63,125
Property and equipment, net (Note 3)	103,550	142,558
Total assets	$4,997,203	$2,583,441
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$74,988	$61,732
Deferred rent	63,396	69,963
Total liabilities	138,384	131,695
Net assets:		
Unrestricted	2,700,419	2,241,746
Temporarily restricted (Note 4)	2,158,400	210,000
Total net assets	4,858,819	2,451,746
Total liabilities and net assets	$4,997,203	$2,583,441

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

ROOM TO GROW NATIONAL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015
(With comparative totals for the year ended December 31, 2014)

	Unrestricted	Temporarily Restricted	Total 12/31/15	Total 12/31/14
Public support and revenue:				
Contributions	$1,110,044	$2,080,500	$3,190,544	$1,220,757
Contributions - in-kind baby items	565,175		565,175	464,023
Special event income (net of direct expenses) (Note 5)	993,148		993,148	1,057,855
Contributed services	183,800		183,800	257,000
Interest and dividends	1,153		1,153	1,361
Loss on disposal of inventory - baby items	(19,788)		(19,788)	(109,139)
Net assets released from restrictions	132,100	($132,100)	0	0
Total public support and revenue	2,965,632	1,948,400	4,914,032	2,891,857
Expenses:				
Program services	1,729,490		1,729,490	1,883,863
Supporting services:				
Management and general	337,723		337,723	416,694
Fundraising	439,746		439,746	402,403
Total supporting services	777,469	0	777,469	819,097
Total expenses	2,506,959	0	2,506,959	2,702,960
Change in net assets	458,673	1,948,400	2,407,073	188,897
Net assets - beginning of year	2,241,746	210,000	2,451,746	2,262,849
Net assets - end of year	$2,700,419	$2,158,400	$4,858,819	$2,451,746

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

ROOM TO GROW NATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
(With comparative totals for the year ended December 31, 2014)

		Supporting Services				
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses 12/31/15	Total Expenses 12/31/14
Salaries	$666,217	$97,841	$182,393	$280,234	$946,451	$1,037,034
Payroll taxes & benefits	104,000	15,273	28,472	43,745	147,745	182,318
Distribution of baby items (including in-kind)	427,042			0	427,042	414,598
Occupancy	294,886	43,308	80,732	124,040	418,926	388,411
Storage (including in-kind)	125,819			0	125,819	102,999
Professional fees (including in-kind)	10,052	130,855	10,618	141,473	151,525	294,837
Office supplies	34,157		1,430	1,430	35,587	33,456
Insurance	8,286	1,216	2,268	3,484	11,770	6,613
Telephone	5,652	830	1,547	2,377	8,029	7,809
Other event expenses (Note 5)			110,526	110,526	110,526	85,465
Postage and delivery	4,611	677	1,262	1,939	6,550	7,624
Printing and production	12,766		6,874	6,874	19,640	27,124
Travel and meals	3,083	9,618	4,952	14,570	17,653	35,883
Bank fees		20,171		20,171	20,171	20,576
Other	2,159	4,042	861	4,903	7,062	10,029
Dues and subscriptions	3,302	5,734	294	6,028	9,330	6,535
Depreciation	27,458	4,033	7,517	11,550	39,008	41,649
Bad debt		4,125		4,125	4,125	0
Total expenses	$1,729,490	$337,723	$439,746	$777,469	$2,506,959	$2,702,960

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

ROOM TO GROW NATIONAL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
(With comparative totals for the year ended December 31, 2014)

	12/31/15	12/31/14
Cash flows from operating activities:		
Change in net assets	$2,407,073	$188,897
Adjustments to reconcile change in net assets to net cash provided by from operating activities:		
Depreciation	39,008	41,649
Contributions - in-kind baby items	(565,175)	(464,023)
Distribution of baby items	427,042	414,598
Loss on disposal of inventory - baby items	19,788	109,139
Changes in operating assets and liabilities:		
Pledges receivable	(40,844)	14,203
Prepaid expenses and other assets	(275)	(11,649)
Security deposit	(29,039)	0
Accounts payable and accrued expenses	13,256	(55,540)
Deferred rent	(6,567)	2,621
Total adjustments	(142,806)	50,998
Net cash flows provided by operating activities	2,264,267	239,895
Cash flows from investing activities:		
Purchases of inventory	(4,183)	(1,630)
Purchases of fixed assets	0	(5,886)
Net cash flows used for investing activities	(4,183)	(7,516)
Net increase in cash and cash equivalents	2,260,084	232,379
Cash and cash equivalents - beginning of year	1,599,819	1,367,440
Cash and cash equivalents - end of year	$3,859,903	$1,599,819

Supplemental disclosures:
Interest and taxes paid - $0

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

ROOM TO GROW NATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 is a not-for profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting
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 when received or paid.

b. Basis of Presentation
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 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
All pledges receivable as of December 31, 2015 are due within one year and have been recorded at net realizable value. Pledges are recorded as revenue in the period a promise is considered unconditional.

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. During the year ended December 31, 2015, a conditional pledge of $3,100,000 was received; of which $1,500,000 has been recognized as income during the year. Management expects to recognize the remaining portion of the pledge in 2016 as the conditions of the contribution are met.

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. This is considered type 2 on the fair value hierarchy. 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. <u>In-kind Services</u>
Donated services are recognized in circumstances when they create or enhance non-financial assets or where those services 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 storage space valued at $107,000 and $83,000 during the years ended December 31, 2015 and 2014, respectfully. In addition, donated professional fees were received for architect, design services, strategic planning and board development and restructuring totaling $76,500 and $174,000 during the years ended December 31, 2015 and 2014, respectfully.

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. <u>Management Estimates</u>
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. <u>Expense Allocation</u>
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. <u>Accounting for Uncertainty of Income Taxes</u>
The Organization does not believe its financial statements include any material uncertain tax positions. Tax filings for periods ending December 31, 2012 and later are subject to examination by applicable taxing authorities.

m. <u>Comparative Financial Information</u>
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, 2014, from which the summarized information was derived.

n. <u>Subsequent Events</u>

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through May 11 2016, 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.

Note 3 - Property and Equipment

Property and equipment consist of the following:

	Estimated Useful Life	12/31/15	12/31/14
Furniture and fixtures	5-7 years	$70,340	$70,340
Office equipment	5 years	36,644	36,644
Leasehold improvements	Life of lease	251,137	251,137
		358,121	358,121
Less: accumulated depreciation		(254,571)	(215,563)
Net: property and equipment		$103,550	$142,558

Note 4 - Temporarily Restricted Net Assets

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

	December 31, 2015			
	1/1/15	New Contributions	Released from Restriction	12/31/15
Clinical services & other projects	$5,000	$147,500	($2,100)	$150,400
Capital campaign	30,000	325,000	0	355,000
Program evaluation	45,000	95,500	0	140,500
Time restrictions	130,000	1,512,500	(130,000)	1,512,500
Total	$210,000	$2,080,500	($132,100)	$2,158,400

	December 31, 2014			
	1/1/14	New Contributions	Released from Restriction	12/31/14
Clinical services & other projects	$0	$5,000	$0	$5,000
Capital campaign	0	30,000	0	30,000
Program evaluation	0	45,000	0	45,000
Time restrictions	0	130,000	0	130,000
Total	$0	$210,000	$0	$210,000

Note 5 - Fundraising Events

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

	December 31, 2015		
	Boston	New York	Total
Gross revenue	$581,060	$570,176	$1,151,236
Less: expenses with a direct benefit to donor	(85,480)	(72,608)	(158,088)
Net revenue from fundraising events	495,580	497,568	993,148
Less: other event expenses	(45,466)	(65,060)	(110,526)
Net income from fundraising events	$450,114	$432,508	$882,622

	December 31, 2014		
	Boston	New York	Total
Gross revenue	$535,069	$674,317	$1,209,386
Less: expenses with a direct benefit to donor	(75,108)	(76,423)	(151,531)
Net revenue from fundraising events	459,961	597,894	1,057,855
Less: other event expenses	(50,015)	(35,450)	(85,465)
Net income from fundraising events	$409,946	$562,444	$972,390

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 and New York on a month-to-month basis while they negotiate a new long term lease.

Future minimum payments are as follows:

Year ending	Total
December 31, 2016	$164,929
December 31, 2017	171,825
December 31, 2018	178,721
December 31, 2019	14,941
Total	$530,416

Rent expense for the year ended December 31, 2015 and 2014 was $384,000 and $373,000, respectively.