

KaBOOM!, Inc.

Consolidated Financial Statements
For the Years Ended
December 31, 2014 and 2013
and
Report Thereon

KABOOM!, Inc.

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LANE & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors of
KaBOOM!, Inc.

We have audited the accompanying consolidated financial statements of KaBOOM!, Inc. (KaBOOM!) which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated 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 consolidated 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 accounting principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

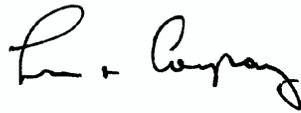
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KaBOOM! as of December 31, 2014 and 2013 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidated Schedule of Functional Expenses on page 13 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Washington, DC, USA
March 25, 2015

KaBOOM!, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2014 and 2013

	2014	2013
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,400,153	\$ 2,671,336
Contracted program services receivable (Note 3)	245,788	253,009
Accounts receivable	792,591	701,902
Investments (Note 5)	4,654,693	5,125,133
Prepaid expenses	210,914	172,821
Other assets	<u>44,005</u>	<u>57,561</u>
Total Current Assets	7,348,144	8,981,762
Property and equipment, net (Note 6)	1,047,225	1,221,262
Intangibles, net (Note 6)	521,999	457,501
Investments (Note 5)	<u>8,258,877</u>	<u>7,834,792</u>
Total Assets	<u>\$ 17,176,245</u>	<u>\$ 18,495,317</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,977,220	\$ 1,880,790
Grants payable (Note 7)	1,901,838	2,458,924
Deferred revenue (Note 8)	2,944,006	4,023,515
Deferred rent	<u>921,193</u>	<u>1,005,294</u>
Total Liabilities	<u>7,744,257</u>	<u>9,368,523</u>
Net Assets		
Unrestricted		
Undesignated	4,931,988	4,626,794
Board designated for operations (Note 2)	<u>4,500,000</u>	<u>4,500,000</u>
Total Unrestricted Net Assets	<u>9,431,988</u>	<u>9,126,794</u>
Total Liabilities and Net Assets	<u>\$ 17,176,245</u>	<u>\$ 18,495,317</u>

The accompanying notes are an integral part of these financial statements.

KaBOOM!, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
REVENUES:		
Contracted Program Services & Grants	\$ 25,391,106	\$ 23,736,530
Contributions & Grants	1,674,938	2,182,563
In-Kind Contributions (Note 9)	1,524,181	2,348,176
Investment Income (Note 5)	526,266	616,571
Miscellaneous Income	<u>16,640</u>	<u>20,830</u>
Total Revenue	<u>29,133,131</u>	<u>28,904,670</u>
EXPENSES:		
Programs	25,066,668	24,762,792
Development	2,092,393	2,275,740
Management and General	<u>1,668,876</u>	<u>1,658,911</u>
Total Expense	<u>28,827,937</u>	<u>28,697,443</u>
CHANGE IN UNRESTRICTED NET ASSETS	305,194	207,227
UNRESTRICTED NET ASSETS—Beginning of year	<u>9,126,794</u>	<u>8,919,567</u>
UNRESTRICTED NET ASSETS—End of year	<u>\$ 9,431,988</u>	<u>\$ 9,126,794</u>

The accompanying notes are an integral part of these financial statements.

KaBOOM!, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities:		
Change in unrestricted net assets	305,194	\$ 207,227
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Depreciation and amortization	301,226	282,702
Net realized/unrealized gain on investments	(297,023)	(316,989)
Changes in assets and liabilities:		
(Increase) / Decrease in:		
Contracted Program Services Receivable	7,221	2,433,651
Accounts Receivable	(90,689)	(93,337)
Prepaid Expenses	(38,093)	(24,302)
Other Assets	13,556	84,477
Increase / (Decrease) in:		
Accounts Payable and Accrued Expenses	96,430	141,444
Grants Payable	(557,086)	786,174
Deferred Revenue	(1,079,509)	(624,750)
Deferred Lease Incentives	(84,101)	(85,162)
Net Cash Provided by/(Used in) Operating Activities	<u>(1,422,874)</u>	<u>2,791,135</u>
Cash Flows Used in Investing Activities:		
Purchases of property and equipment	(7,486)	(80,048)
Proceeds from sale of investments	500,000	-
Payments for intangibles	(184,201)	(421,189)
Purchase of investments	(156,622)	(2,729,502)
Net Cash Provided by/(Used in) Investing Activities	<u>151,691</u>	<u>(3,230,739)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,271,183)	(439,604)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>2,671,336</u>	<u>3,110,940</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 1,400,153</u>	<u>\$ 2,671,336</u>
Supplemental Disclosure:		
Donated Securities	<u>\$ 511,983</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

KaBOOM!, INC.
Notes to Consolidated Financial Statements

1. ORGANIZATION

KaBOOM! is the national non-profit dedicated to bringing balanced and active play into the daily lives of all kids, particularly those growing up in poverty in America. Since 1996, KaBOOM! has collaborated with partners to build, open or improve nearly 16,000 playgrounds, engaged more than 1.0 million volunteers and served 8.1 million children. KaBOOM! creates great places to play, inspires communities to promote and support play, and works to drive the national discussion about the importance of play in fostering healthy lives and communities. Headquartered in Washington, D.C., KaBOOM! also has an office in San Mateo, CA.

KaBOOM! Play Initiatives, LLC ("KPI"), a wholly owned subsidiary of KaBOOM!, Inc., is a Delaware limited liability company that was formed in 2013 to pursue certain play initiatives in furtherance of KaBOOM!'s mission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principals of Consolidation – The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States and, as a result, all significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Accounting - KaBOOM! maintains its accounts on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when incurred. Contracted program services are deemed to be exchange transactions, which are recorded as deferred revenue when received and recognized as unrestricted revenue upon performance or incurrence of expenditures related to such services. Contributions and grants received without restrictions or with donor-imposed restrictions satisfied in the year received are recognized as unrestricted revenue. Contributions and grants pending satisfaction of donor-imposed restrictions are reported as temporarily restricted support.

Basis of Presentation - Net assets, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions or conditions. Accordingly, the net assets of the organization and changes therein are classified and reported as follows:

Unrestricted net assets - Unrestricted net assets result from revenues and other inflows of assets whose use by KaBOOM! is not limited by donor-imposed restrictions or conditions and are available for use in the general operations of KaBOOM!.

Board Designated net assets – The Board of Directors has designated \$4,500,000 as of December 31, 2014 and 2013 to be held in reserve to support future years' operations, provide a resource for unexpected downturns, and provide a source of investment in the organization. Any use of these funds must be approved by the Board.

Cash and Cash Equivalents - KaBOOM! considers all unrestricted highly liquid investments with an original maturity of less than 90 days to be cash equivalents.

KaBOOM!, INC.
Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Equipment and Intangibles - Property, equipment and intangibles are stated at cost if purchased and at fair market value if donated. Property, equipment and intangibles are depreciated and amortized using the straight-line method over estimated useful lives of three to seven years with no salvage value. Expenditures for major additions and improvements that extend the useful lives of fixed assets are capitalized as property and equipment while maintenance and repairs are expensed in the year incurred.

Intangibles consist of the cost of developing the KaBOOM! Internet website and staff intranet. This cost is amortized by the straight-line method over an estimated useful life of three years and seven years, respectively.

Other Assets - Other assets consist of inventory of build day supplies, publications and deposits. The inventory is stated at cost determined by the specific identification method.

In-Kind Support – Playground equipment & supplies, marketing, advertising, consulting & legal services and donated conference facilities received are reflected in the accompanying consolidated financial statements as support to KaBOOM! at the estimated fair value when received.

Use of Estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations of Credit Risk - KaBOOM! bank accounts, consisting of checking and money market accounts, are insured by the Federal Deposit Insurance Corporation up to \$250,000. Deposits in excess of federally insured limits were \$1,455,234 and \$2,613,676 at December 31, 2014 and 2013, respectively.

Functional Allocation of Expenses - The costs of providing various KaBOOM! programs and supporting services have been summarized on a functional basis. Overhead costs that cannot be specifically identified with a program or supporting service are allocated to the programs and supporting services based on salaries.

3. CONTRACTED PROGRAM SERVICES RECEIVABLE

Contracted program services receivable, net of allowances, at December 31 are as follows:

	2014	2013
Receivables for playground builds	\$ 295,788	\$ 303,009
Less: Allowance for Doubtful Accounts	<u>(50,000)</u>	<u>(50,000)</u>
Contracted Program Services Receivable, net	<u>\$ 245,788</u>	<u>\$ 253,009</u>

KaBOOM!, INC.
Notes to Consolidated Financial Statements

4. CONTRACTED PROGRAM SERVICES

KaBOOM! has executed program service contracts that are conditional upon future events, as follows:

	2014	2013
Playground construction and other project completion	<u>\$ 7,598,272</u>	<u>\$ 7,044,179</u>

These promises will not be recognized as contracted program services receivable or revenue until the conditions on which they depend are substantially met.

5. INVESTMENTS

At December 31, investments consist of the following:

	2014	2013
Government Backed Short Term Investment	\$ 4,654,693	\$ 5,125,133
Conservative Intermediate Term	2,618,074	2,520,399
Moderate Growth Income Portfolio	<u>5,640,803</u>	<u>5,314,393</u>
Investments	<u>\$ 12,913,570</u>	<u>\$ 12,959,925</u>

The government backed short term investment is a mutual fund that seeks current income consistent with minimum volatility, and invests primarily in securities that are issued or guaranteed by the U.S. government, its agencies or instrumentalities. The conservative intermediate term portfolio is a managed selection of mutual funds to fit a conservative investment style that has an average maturity of five years. The moderate growth income portfolio is a managed selection of mutual funds compiled to fit a moderate growth and income investment style utilizing a broad spectrum of asset classes.

The following schedule summarizes investment income:

	2014	2013
Interest and dividends	\$ 229,243	\$ 299,582
Net unrealized gain	<u>297,023</u>	<u>316,989</u>
Investment Income	<u>\$ 526,266</u>	<u>\$ 616,571</u>

Financial Accounting Standards Board Accounting Standards Codification 820, Fair Value Measurements, requires disclosure of a fair-value hierarchy of inputs KaBOOM! uses to value an asset or liability. The three levels of the fair-value hierarchy are described as follows:

KaBOOM!, INC.
Notes to Consolidated Financial Statements

5. INVESTMENTS (CONTINUED)

Level 1: Quoted prices in active markets for identical assets and liabilities;

Level 2: Inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace; and

Level 3: Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

Investments, recorded at fair value, consisted of the following at December 31:

	Level 1	Level 2	Level 3	Totals
2014				
Government Backed Short Term Investment	\$ 4,654,693	-	-	\$ 4,654,693
Conservative Intermediate Term	2,618,074	-	-	2,618,074
Moderate Growth Income Portfolio	5,640,803	-	-	5,640,803
2014 Totals	\$ 12,913,570	\$ -	\$ -	\$ 12,913,570
2013				
Government Backed Short Term Investment	\$ 5,125,133	-	-	\$ 5,125,133
Conservative Intermediate Term	2,520,399	-	-	2,520,399
Moderate Growth Income Portfolio	5,314,393	-	-	5,314,393
2013 Totals	\$ 12,959,925	\$ -	\$ -	\$ 12,959,925

6. PROPERTY, EQUIPMENT AND INTANGIBLES

At December 31, property and equipment consisted of the following:

	2014	2013
Property and Equipment	\$ 780,553	\$ 776,338
Leasehold improvements	1,151,518	1,148,247
Vehicles	<u>56,576</u>	<u>56,576</u>
Total property and equipment	1,988,647	1,981,161
Less: Accumulated Depreciation	<u>(941,422)</u>	<u>(759,899)</u>
Property and Equipment, net	<u><u>\$ 1,047,225</u></u>	<u><u>\$ 1,221,262</u></u>

Depreciation expense for 2014 and 2013 was \$181,523 and \$180,032, respectively.

At December 31, intangibles were as follows:

	2014	2013
Total Costs	1,437,582	1,253,381
Less: Accumulated Amortization	<u>(915,583)</u>	<u>(795,880)</u>
Intangibles, net	<u><u>\$ 521,999</u></u>	<u><u>\$ 457,501</u></u>

Amortization expense for 2014 and 2013 was \$119,703 and \$102,670, respectively.

KaBOOM!, INC.
Notes to Consolidated Financial Statements

7. GRANTS PAYABLE

Grants payable consist of commitments outstanding related to amounts awarded to community groups to fund all or a portion of playground-related or similar projects under initiatives underwritten by corporate or other funding sponsors. These one year commitments are fulfilled at the time such projects are completed. At December 31, 2014 and 2013, grants payable were \$1,901,838 and \$2,458,924, respectively.

8. DEFERRED REVENUE

Deferred revenue is comprised of contracted program services for projects and programs that have not yet been completed. The terms of the agreements for these services require that certain conditions must be met or the unspent funds are to be returned to the donor. Once these conditions are satisfied the funds are moved from deferred and recognized as current revenue. Deferred revenue was \$2,944,006 and \$4,023,515, at December 31, 2014 and 2013, respectively.

9. IN-KIND CONTRIBUTIONS

KaBOOM! receives playground equipment, building supplies, advertising, legal services and donated facilities that are recorded at fair value as income and expense at the time the items are received. This amounted to \$1,524,181 and \$2,348,176 in 2014 and 2013, respectively, and has been recorded as in-kind revenue and program expense on the statement of activities.

A member of the KaBOOM! Board of Directors is employed by a law firm that provided the legal services that were valued at \$453,544 and \$416,066 in 2014 and 2013, respectively.

Additionally, volunteers have donated significant amounts of time to KaBOOM! in various capacities. However, these services have not been reflected in the consolidated financial statements since they neither require specialized skills nor would have been typically purchased had they not been donated. The value of these services is not readily determinable.

10. PENSION PLAN

KaBOOM! has a 403(b) defined contribution retirement savings plan, which covers all full-time employees. Employees can make voluntary contributions to the plan. KaBOOM! contributes, on behalf of each eligible employee, an amount equal to 100% of that employee's voluntary contributions up to 3% of their total compensation. KaBOOM! also offers a 457(b) and 457(f) deferred compensation plan. In 2014 and 2013, contributions to the retirement plans were \$192,913 and \$160,005 respectively.

KaBOOM!, INC.
Notes to Consolidated Financial Statements

11. INCOME TAXES

Under Section 501(c)(3) of the Internal Revenue Code, KaBOOM! is exempt from Federal taxes on income other than unrelated business income. At December 31, 2014 and 2013 no provision was made as KaBOOM! had no net unrelated business income. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition on the consolidated financial statements.

As a single-member limited liability company, KPI is treated as a "disregarded entity" for federal and state income tax purposes.

12. LEASE COMMITMENTS

KaBOOM! has a non-cancellable lease agreement for office space in Washington, D.C., which expires July 31, 2022, and in San Mateo, CA, which expires September 30, 2015. The lease payments are subject to increases based on operating expenses and real estate taxes.

The minimum future lease payments under these agreements are as follows:

2015	597,012
2016	559,950
2017	573,948
2018	588,297
2019	<u>603,004</u>
	2,922,211
Future Years	<u>1,681,400</u>
	<u>\$ 4,603,612</u>

Rent expense was \$465,110 and \$419,465 in 2014 and 2013, respectively.

13. RELATED PARTY- JOINT VENTURE AGREEMENT

In 2009, KaBOOM!, Inc. and Playground Initiative, Inc., a 501(c)(3) organization affiliated with Rockwell Architecture, Planning and Design, P.C., formed Imagination Playground, LLC as a joint venture focused on the design, development, production, manufacturing, marketing, distribution, sale and installation of play spaces and related play equipment associated with the Imagination Playground concept, which was conceived and designed by architect David Rockwell to encourage child-directed, unstructured "free play."

KaBOOM!, INC.
Notes to Consolidated Financial Statements

13. RELATED PARTY- JOINT VENTURE AGREEMENT (CONTINUED)

The joint venture is managed by a separate board consisting of the chief executive officer of the joint venture and two designees appointed by each of KaBOOM! and Playground Initiative. In addition, the joint venture is a vendor to KaBOOM!, which from time to time may purchase Imagination Playground products from the joint venture on behalf of certain communities that may receive such products in connection with KaBOOM!-led playground builds or KaBOOM!-administered grant programs.

In 2014 and 2013, KaBOOM! made purchases of Imagination Playground sets totaling \$358,626 and \$839,744, respectively.

14. SINGLE MEMBER LLC

KaBOOM! Play Initiatives, LLC ("KPI"), a wholly owned subsidiary of KaBOOM!, Inc., is a Delaware limited liability company that was formed in 2013 to pursue certain play initiatives in furtherance of KaBOOM!'s mission. Among other things, KPI undertakes activities designed to connect sellers and buyers of innovative play or play-related products. While KPI does not own or sell such products, it does provide certain payment processing services and manages order fulfillment for such products (among other ancillary services provided by KPI in connection with such activities). Sellers completing sales in connection with such activities contribute to KPI a portion of the sales price paid for each product as an unrestricted donation to support KaBOOM!'s mission. During 2014, KPI revenue totaled approximately \$142,000.

15. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, KaBOOM! has evaluated events and transactions for potential recognition or disclosure through March 25, 2015, the date the consolidated financial statements were available for issue.

KaBOOM!, INC.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2014 (with Comparative Totals for 2013)

	CPC	External Affairs	Programs Total	Development	Management & General	2014 Total	2013 Total
Construction	\$ 9,800,323	\$ -	\$ 9,800,323	-	-	\$ 9,800,323	\$ 8,831,806
Employee Expenses	4,381,289	2,458,679	6,839,968	1,429,047	1,172,409	9,441,424	8,912,144
Grants Expenses	1,823,897	56,480	1,880,377	-	-	1,880,377	3,575,893
Professional Services	1,015,999	2,074,308	3,090,307	74,087	49,780	3,214,174	3,620,461
Property and Maintenance	172,054	118,948	291,002	59,202	129,613	479,817	433,362
Depreciation	94,782	102,482	197,264	32,560	71,402	301,226	282,702
Bad Debt	15,010	-	15,010	-	-	15,010	13,877
Reproduction and Delivery	114,939	88,739	203,678	190,780	20,947	415,405	211,134
Information Technology	82,033	49,797	131,830	33,044	42,803	207,677	102,952
Conferences	42,655	78,195	120,850	14,415	3,804	139,069	198,863
Travel and Entertainment	970,202	127,259	1,097,461	108,000	20,614	1,226,075	1,064,958
Telecommunications	82,232	33,309	115,541	21,554	25,501	162,596	194,407
Marketing	191,694	955,733	1,147,427	45,714	-	1,193,141	821,431
Interest and Fees	603	31	634	3,926	66,227	70,787	48,408
Office Expenses	73,788	61,208	134,996	80,064	65,776	280,836	385,045
2014 Totals	\$18,861,500	\$ 6,205,168	\$25,066,668	\$ 2,092,393	\$ 1,668,876	\$ 28,827,937	
2013 Totals	\$18,767,091	\$ 5,995,703	\$24,762,794	\$ 2,275,740	\$ 1,658,909		\$28,697,443
2014 Percentage	65%	22%	87%	7%	6%	100%	
2013 Percentage	65%	21%	86%	8%	6%		100%