

KaBOOM!, Inc.

Financial Statements
For the Years Ended
December 31, 2012 and 2011
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 financial statements of KaBOOM!, Inc. (KaBOOM!) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities 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.

Auditor's 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 auditor's judgment, including the assessment of the risk 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 accounting principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation.

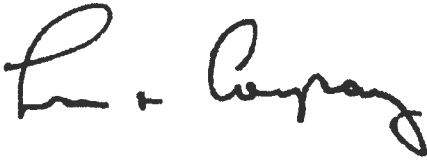
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KaBOOM! as of December 31, 2012 and 2011 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 financial statements as a whole. The Schedule of Functional Expenses on page 13 is presented for purposes of additional analysis and is not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

A handwritten signature in black ink, appearing to read "P. + Company". The signature is written in a cursive, flowing style.

Washington, DC, USA
March 20, 2013

KaBOOM!, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2012 and 2011

	2012	2011
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 3,110,940	\$ 5,006,511
Contributions receivable (Note 3)	2,686,660	255,888
Accounts receivable	608,565	689,736
Investments - short-term (Note 5)	5,155,670	5,104,735
Prepaid expenses	148,519	140,130
Other assets	<u>142,038</u>	<u>131,926</u>
Total Current Assets	11,852,392	11,328,926
Property and equipment, net (Note 6)	1,321,246	251,741
Intangibles, net (Note 6)	138,982	43,690
Investments - long-term (Note 5)	<u>4,757,764</u>	<u>-</u>
Total Assets	<u>\$ 18,070,384</u>	<u>\$ 11,624,357</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,739,346	\$ 1,521,564
Grants payable (Note 7)	1,672,750	1,081,500
Deferred revenue (Note 8)	4,648,265	1,741,720
Deferred lease incentive	<u>1,090,456</u>	<u>47,468</u>
Total Liabilities	<u>9,150,817</u>	<u>4,392,252</u>
Net Assets		
Unrestricted		
Undesignated	4,419,567	2,732,105
Board designated for operations (Note 2)	<u>4,500,000</u>	<u>4,500,000</u>
Total Unrestricted	<u>8,919,567</u>	<u>7,232,105</u>
Total Liabilities and Net Assets	<u>\$ 18,070,384</u>	<u>\$ 11,624,357</u>

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

KaBOOM! Inc.

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
REVENUES:		
Grants and Contributions	\$ 24,825,813	\$ 21,707,454
In-Kind Contributions	1,851,519	1,248,943
Investment and Interest Income	342,737	60,547
Other Income	<u>27,970</u>	<u>51,869</u>
Total revenue	<u>27,048,039</u>	<u>23,068,813</u>
EXPENSES:		
Programs	21,801,820	19,209,046
Development	2,190,076	2,074,241
Management and General	<u>1,368,681</u>	<u>1,139,942</u>
Total expense	<u>25,360,577</u>	<u>22,423,229</u>
CHANGE IN NET ASSETS	1,687,462	645,584
NET ASSETS—Beginning of year	<u>7,232,105</u>	<u>6,586,521</u>
NET ASSETS—End of year	<u>\$ 8,919,567</u>	<u>\$ 7,232,105</u>

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

KaBOOM! Inc.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,687,462	\$ 645,584
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	231,819	277,219
Loss on disposal of fixed assets and intangibles	-	37,855
Realized/unrealized gain on investments	(163,842)	(10,349)
Changes in assets and liabilities:		
(Increase) / Decrease in:		
Contributions Receivable	(2,430,772)	162,452
Accounts Receivable	81,171	58,669
Prepaid Expenses	(8,389)	(27,417)
Other Assets	(10,112)	(27,153)
Increase / (Decrease) in:		
Accounts Payable and Accrued Expenses	217,782	197,977
Grants Payable	591,250	1,055,000
Deferred Revenue	2,906,545	(127,923)
Deferred Lease Incentive	1,042,988	(21,097)
Net Cash Provided by Operating Activities	<u>4,145,902</u>	<u>2,220,817</u>
Cash Flows Used In Investing Activities:		
Purchases of property and equipment	(1,385,251)	(6,147)
Proceeds from sale of property and equipment	171,948	-
Payments for intangibles	(183,313)	-
Purchase of investments	(4,644,857)	(36,112)
Net Cash Used in Investing Activities	<u>(6,041,473)</u>	<u>(42,259)</u>
Cash Flows Used In Financing Activities		
Principal payments under capital lease obligations	-	(9,360)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(1,895,571)	2,169,198
CASH AND CASH EQUIVALENTS—Beginning of year	<u>5,006,511</u>	<u>2,837,313</u>
CASH AND CASH EQUIVALENTS—End of year	<u>3,110,940</u>	<u>5,006,511</u>
Supplemental disclosure of cash flow information		
Cash payments for interest	<u>\$ -</u>	<u>\$ 293</u>

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

KaBOOM! INC.
Notes to Financial Statements

1. ORGANIZATION

KaBOOM! is a national non-profit organization dedicated to saving play and solving the play deficit. KaBOOM! envisions a great place to play within walking distance of every child in America. Since 1996, KaBOOM! has mapped over 182,000 places to play, used its innovative community-build model to bring together business and community interests to construct more than 2,247 new playgrounds and successfully advocated for play policies in hundreds of cities across the country. KaBOOM! also provides communities with online tools to self-organize and take action to support play on both a local and national level. Headquartered in Washington, D.C., KaBOOM! also has an office in San Mateo, CA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - KaBOOM! maintains its accounts on the accrual basis of accounting. Revenues are recognized when committed or billed. Expenses are recorded when incurred.

Basis of Presentation - Net assets, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions. 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.

Board Designated net assets – The Board of Directors has designated \$4,500,000 as of December 31, 2012 and 2011 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.

Property, Equipment and Intangibles - Property, equipment and intangibles are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the respective assets, which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the lesser of the terms of the lease or the expected useful lives of the improvements. Intangibles consist of the costs of developing the KaBOOM! website and BoomBase intranet, and are amortized using the straight-line method over an estimated useful life of three years.

KaBOOM! INC.
Notes to Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, building supplies, advertising, legal services and donated facilities received are reflected in the accompanying financial statements as support to KaBOOM! at the estimated fair value when received.

Use of Estimates - The preparation of 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 \$3,081,398 and \$5,019,007 at December 31, 2012 and 2011, respectively.

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

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable, net of allowances, at December 31 are as follows:

	2012	2011
Receivables for playground builds	\$ 2,736,660	\$ 305,888
Less: Allowance for Doubtful Accounts	<u>(50,000)</u>	<u>(50,000)</u>
	<u>\$ 2,686,660</u>	<u>\$ 255,888</u>

KaBOOM! collected approximately \$2,555,000 of the December 31, 2012 contributions receivable by the issuance date of these financial statements.

KaBOOM! INC.
Notes to Financial Statements

4. CONDITIONAL PROMISES TO GIVE

KaBOOM! has received promises to give that are conditional upon future events, as follows:

	2012	2011
Playground construction and other project completion	<u>\$ 16,003,096</u>	<u>\$ 20,048,049</u>

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

5. INVESTMENTS

At December 31, investments consist of the following:

	2012	2011
Investments - Short-Term:		
Government Backed Short Term Investment	\$ 5,155,670	\$ 5,104,735
Investments - Long-Term:		
Moderate Growth Income Portfolio	<u>4,757,764</u>	<u>-</u>
	<u>9,913,434</u>	<u>5,104,735</u>

The government backed short term investment is a mutual fund that seeks current income consistent with minimum volatility, and invests primarily in securities which are issued or guaranteed by the U.S. government, its agencies or instrumentalities. 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 and interest income:

Interest and dividends	\$ 178,895	\$ 50,198
Net unrealized gain	<u>163,842</u>	<u>10,349</u>
	<u>\$ 342,737</u>	<u>\$ 60,547</u>

FASB Statement No. 157, Fair Value Measurements (FAS 157) 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 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;

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, consist of the following at December 31:

	Level 1	Level 2	Level 3	Total
2012				
Government Backed Short Term Investment	\$ 5,155,670	\$ --	\$ --	\$ 5,155,670
Moderate Growth Income Portfolio	<u>4,757,764</u>	<u>--</u>	<u>--</u>	<u>4,757,764</u>
Total 2012	<u>\$ 9,913,434</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 9,913,434</u>
Total 2011	<u>\$ 5,104,735</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 5,104,735</u>

6. 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.

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

	2012	2011
Property and Equipment	\$ 734,423	\$ 495,018
Leasehold improvements	1,110,114	783,696
Vehicles	<u>56,576</u>	<u>56,576</u>
Total property and equipment	1,901,113	1,335,290
Less: Accumulated Depreciation	<u>(579,867)</u>	<u>(1,083,548)</u>
Property and Equipment, net	<u>\$ 1,321,246</u>	<u>\$ 251,741</u>

Depreciation expense for 2012 and 2011 was \$143,798, and \$132,080, respectively.

KaBOOM! INC.
Notes to Financial Statements

6. PROPERTY, EQUIPMENT AND INTANGIBLES (CONTINUED)

Intangibles consist of the cost of developing the KaBOOM! internet website and BoomBase intranet. This cost is amortized by the straight-line method over an estimated useful life of three years. At December 31 intangibles were as follows:

	2012	2011
Total Costs	832,192	648,879
Less: Accumulated Amortization	<u>(693,210)</u>	<u>(605,189)</u>
Intangibles, net	<u>\$ 138,982</u>	<u>\$ 43,690</u>

Amortization expense for 2012 and 2011 was \$88,021 and \$145,139, respectively.

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, 2012 and 2011, grants payable were \$1,672,750 and \$1,081,500, respectively.

8. DEFERRED REVENUE

Deferred revenue is comprised of contributions for projects and programs that have not yet been completed. The terms of the Letter of Agreements for these contributions require that certain conditions must be met or the 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 \$4,648,265 and \$1,741,720, at December 31, 2012 and 2011, 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 \$1,851,519 and \$1,298,943 in 2012 and 2011, 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 \$565,129 and \$543,959 in 2012 and 2011, respectively.

Additionally, volunteers have donated significant amounts of time to KaBOOM! in various capacities. However, these services have not been reflected in the 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.

KaBOOM! INC.
Notes to Financial Statements

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 2012 and 2011, contributions to the retirement plans were \$166,540 and \$152,984 respectively.

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, 2012 and 2011 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 financial statements.

12. LEASE COMMITMENTS

KaBOOM! has a non-cancellable lease agreement for office space in Washington, D.C., which expires July 31, 2022 and 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:

2013	\$ 561,155
2014	573,700
2015	571,721
2016	540,389
2017	<u>553,899</u>
	2,800,864
Future Years	<u>2,772,352</u>
	<u>\$ 5,573,216</u>

In-kind contributions of office space were \$30,280 and \$36,605 in 2012 and 2011, respectively. Rent expense was \$479,663 and \$540,113 in 2012 and 2011, respectively.

KaBOOM! INC.
Notes to Financial Statements

13. JOINT VENTURE

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."

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 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.

During the year ended December 31, 2012, KaBOOM! purchased \$908,837 of imagination playground play sets.

14. SUBSEQUENT EVENTS

In preparing these financial statements, KaBOOM! has evaluated events and transactions for potential recognition or disclosure through March 20, 2013, the date the financial statements were available for issue.

KaBOOM! Inc.

SCHEDULE OF FUNCTIONAL EXPENSES YEARS ENDED DECEMBER 31, 2012 (With Comparative Totals for 2011)

	Major Programs		Program Total	Development	Management & General	2012 Total	2011 Total
	LEAD	MASS ACTION					
Construction	\$ 8,918,928	\$ -	\$ 8,918,928	\$ -	\$ -	\$ 8,918,928	\$ 8,248,222
Employee Expenses	2,918,571	2,227,256	5,145,827	1,479,404	892,387	7,517,618	6,739,255
Grants Expenses	2,882,965	2,374	2,885,339	-	-	2,885,339	2,047,511
Professional Services	1,013,892	1,012,862	2,026,754	284,883	116,232	2,427,869	2,017,149
Property and Maintenance	183,678	113,846	297,524	85,180	129,571	512,275	590,209
Depreciation	97,887	68,545	166,432	26,302	39,085	231,819	277,219
Bad Debt	15,905	-	15,905	-	-	15,905	11,256
Reproduction and Delivery	56,564	47,363	103,927	51,197	13,980	169,104	184,113
Information Technology	31,946	35,029	66,975	12,998	11,217	91,190	51,392
Conferences	58,915	20,140	79,055	10,363	4,615	94,033	96,858
Travel and Entertainment	827,310	70,450	897,760	74,931	68,221	1,040,912	893,684
Telecommunications	128,928	32,377	161,305	27,046	29,223	217,574	195,329
Marketing	73,078	783,097	856,175	11,764	-	867,939	789,206
Interest and Fees	12,046	7,212	19,258	7,830	127	27,215	10,203
Office Expenses	89,679	70,977	160,656	118,178	64,023	342,857	271,623
2012 Totals	\$ 17,310,292	\$ 4,491,528	\$ 21,801,820	\$ 2,190,076	\$ 1,368,681	\$ 25,360,577	\$ 22,423,229
2011 Totals	\$ 15,282,857	\$ 3,926,189	\$ 19,209,046	\$ 2,074,241	\$ 1,139,942		
2012 Percentage	68%	18%	86%	9%	5%	100%	
2011 Percentage	68%	18%	86%	9%	5%	100%	