

# **KaBOOM!, Inc.**

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Consolidated Financial Statements  
For the Years Ended  
December 31, 2018 and 2017  
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, 2018 and 2017, 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 of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

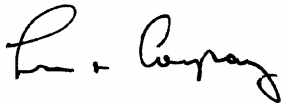
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KaBOOM! as of December 31, 2018 and 2017 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 16 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 27, 2019

# KaBOOM!, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 and 2017

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	2018	2017
<b><u>ASSETS</u></b>		
Current Assets		
Cash and cash equivalents	\$ 1,329,549	\$ 1,185,861
Contributions and program services receivable (Note 3)	1,668,350	471,070
Accounts receivable	455,256	342,623
Investments (Note 5)	4,761,975	4,766,757
Prepaid expenses (Note 6)	87,833	583,100
Other assets	<u>63,279</u>	<u>53,499</u>
Total Current Assets	8,366,242	7,402,910
Property and equipment, net (Note 7)	572,565	612,154
Intangibles, net (Note 7)	176,209	263,791
Investments (Note 5)	<u>13,780,346</u>	<u>14,373,355</u>
Total Assets	<u>\$ 22,895,362</u>	<u>\$ 22,652,210</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,644,365	\$ 1,858,543
Grants payable (Note 8)	395,540	442,477
Deferred revenue (Note 9)	3,142,357	5,559,704
Deferred rent (Note 14)	<u>477,598</u>	<u>608,465</u>
Total Liabilities	<u>6,659,860</u>	<u>8,469,189</u>
Net Assets		
Without donor restrictions	12,396,656	12,787,846
With donor restrictions (Note 10)	<u>3,838,846</u>	<u>1,395,175</u>
Total Net Assets	<u>16,235,502</u>	<u>14,183,021</u>
Total Liabilities and Net Assets	<u>\$ 22,895,362</u>	<u>\$ 22,652,210</u>

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

# KaBOOM!, INC.

## CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018			2017		
	Without donor Restrictions	With donor Restrictions	Total	Without donor Restrictions	With donor Restrictions	Total
REVENUES						
Contracted Program Services	\$ 18,354,797	\$ -	\$ 18,354,797	\$ 18,522,049	\$ -	\$ 18,522,049
Contributions and Grants	6,987,518	3,838,846	10,826,364	2,808,632	1,395,175	4,203,807
In-Kind Contributions	614,500	-	614,500	935,033	-	935,033
Released From Restrictions	<u>1,395,175</u>	<u>(1,395,175)</u>	<u>-</u>	<u>1,484,738</u>	<u>(1,484,738)</u>	<u>-</u>
Total Revenues	<u>27,351,990</u>	<u>2,443,671</u>	<u>29,795,661</u>	<u>23,750,452</u>	<u>(89,563)</u>	<u>23,660,889</u>
EXPENSES						
Programs	23,849,509	-	23,849,509	21,194,417	-	21,194,417
Development	2,147,606	-	2,147,606	2,018,433	-	2,018,433
Management and General	<u>1,247,880</u>	<u>-</u>	<u>1,247,880</u>	<u>1,395,471</u>	<u>-</u>	<u>1,395,471</u>
Total Expenses	<u>27,244,995</u>	<u>-</u>	<u>27,244,995</u>	<u>24,608,321</u>	<u>-</u>	<u>24,608,321</u>
Change in Net Assets from Operations	106,995	2,443,671	2,550,666	(857,869)	(89,563)	(947,432)
Investment Income/(Loss), net	<u>(498,185)</u>	<u>-</u>	<u>(498,185)</u>	<u>1,497,645</u>	<u>-</u>	<u>1,497,645</u>
CHANGE IN NET ASSETS	(391,190)	2,443,671	2,052,481	639,776	(89,563)	550,213
NET ASSETS—Beginning of year	<u>12,787,846</u>	<u>1,395,175</u>	<u>14,183,021</u>	<u>12,148,070</u>	<u>1,484,738</u>	<u>13,632,808</u>
NET ASSETS—End of year	<u>\$ 12,396,656</u>	<u>\$ 3,838,846</u>	<u>\$ 16,235,502</u>	<u>\$ 12,787,846</u>	<u>\$ 1,395,175</u>	<u>\$ 14,183,021</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, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,052,481	\$ 550,213
Adjustments to reconcile change in net assets to net cash provided by/ (used in) operating activities:		
Depreciation and amortization	240,679	261,260
Realized/unrealized (gain)/loss on investments	835,787	(1,215,629)
Changes in assets and liabilities:		
(Increase) / Decrease in:		
Contributions and Program Services Receivable	(1,197,280)	732,204
Accounts Receivable	(112,633)	30,354
Prepaid Expenses	495,267	(387,396)
Other Assets	(9,780)	(17,853)
Increase / (Decrease) in:		
Accounts Payable and Accrued Expenses	785,822	(305,031)
Grants Payable	(46,938)	(1,063,830)
Deferred Revenue	(2,417,347)	600,324
Deferred Rent	(130,867)	(130,867)
Net Cash Provided by/ (used in) Operating Activities	<u>495,191</u>	<u>(946,251)</u>
Cash Flows Used in Investing Activities:		
Purchases of property and equipment	(113,508)	(35,056)
Proceeds from sale of investments	4,104,370	2,594,612
Purchase of investments	<u>(4,342,365)</u>	<u>(6,984,585)</u>
Net Cash Used in Investing Activities	<u>(351,503)</u>	<u>(4,425,029)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	143,688	(5,371,280)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>1,185,861</u>	<u>6,557,141</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 1,329,549</u>	<u>\$ 1,185,861</u>
Supplemental disclosure:		
Donated Securities	<u>\$ -</u>	<u>\$ 604,763</u>

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

**KaBOOM!, INC.**  
**Notes to Consolidated Financial Statements**

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## 1. ORGANIZATION

**KaBOOM!** is a publicly supported 501(c)(3) national non-profit dedicated to giving all kids — particularly those growing up in poverty in America — the childhood they deserve filled with balanced and active play, so they can thrive. Since 1996, KaBOOM! has collaborated with partners to build or restore more than 17,000 playspaces, engaged more than 1.5 million volunteers and served nearly 10 million kids. Headquartered in Washington, D.C., KaBOOM! also has an office in San Bruno, CA.

KaBOOM! engages in activities designed to ensure all kids, especially those living in communities affected by disinvestment, have access to great, safe places to play and works to drive the national discussion about the importance of creating and equitably expanding opportunities for play to make it as easy as possible for all kids to learn, explore, grow and just be kids. KaBOOM! does this through:

- **Direct Impact Offerings:** KaBOOM! seeks to eliminate barriers to play for the kids who need it most through various play solutions, including Build it with KaBOOM! playspace projects, Creative Play Products (Imagination Playground and Rigamajig) and Play Everywhere and Build It Yourself grants, each uniquely designed to make it easier for kids to play across the country.
- **Thought Leadership:** Through media opportunities, conference attendance and developing relationships with key funders, city leaders and community advocates, KaBOOM! seeks to lead the conversation and drive communications to support the advancement of its mission and to educate and inspire stakeholders and communities to take action to ensure all kids have the opportunities to play they need.

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 revenue without donor restrictions upon performance or incurrence of expenditures related to such services. Contributions and grants received without restrictions are recognized as revenue without donor restrictions when received or unconditionally promised, whichever comes first. Contributions and grants received with donor-imposed restrictions are reported as revenue with donor restrictions .

***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:

***With donor restrictions*** – Contributions and grants pending satisfaction of donor-imposed, time or purpose restrictions are reported as revenue with donor restrictions. Donor-imposed restrictions satisfied in the year received are recognized as revenue without donor restrictions.



**KaBOOM!, INC.**  
**Notes to Consolidated Financial Statements**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Without donor restrictions*** – Net assets without donor restrictions 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!.

The Board of Directors has designated \$4,500,000 as of December 31, 2018 and 2017 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 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*** – KaBOOM! receives playground equipment, building supplies, marketing, advertising, consulting services, legal services and product development that are recorded at fair value as income and expense at the time the items are 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 \$897,378 and \$860,777 at December 31, 2018 and 2017, 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 salary allocations and management estimates.

**KaBOOM!, INC.**  
**Notes to Consolidated Financial Statements**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Recent Accounting Pronouncements—***

In May 2014, the FASB issued ASU 2014-09 - Revenue from Contracts with Customers (Topic 606). The update requires that revenue should be recognized to depict the transfer of promised goods and services to customers in an amount that reflects consideration to which the entity expects to be entitled in exchange for these goods and services, utilizing a five-step analysis of transactions to determine when the revenue is recognized. The guidance is effective for fiscal year 2019.

In February 2016, the FASB issued ASU 2016-02, Leases. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statements of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in fiscal year 2020.

KaBOOM! is evaluating the effect the provisions of these ASUs will have on the consolidated financial statements.

**3. CONTRIBUTIONS & PROGRAM SERVICES RECEIVABLE**

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

	<b>2018</b>	<b>2017</b>
Contributions and program services receivable	\$ 1,768,350	\$ 521,070
Less: Allowance for Doubtful Accounts	<u>(100,000)</u>	<u>(50,000)</u>
Contributions and Program Services Receivable, net	<u>\$ 1,668,350</u>	<u>\$ 471,070</u>

**4. CONTRACTED PROGRAM SERVICES**

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

	<b>2018</b>	<b>2017</b>
Playground construction and other project completion	<u>\$ 5,409,315</u>	<u>\$ 5,480,608</u>

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

**KaBOOM!, INC.**  
**Notes to Consolidated Financial Statements**

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**5. INVESTMENTS**

KaBOOM! classifies Investments as Current or Non-Current based on duration of original maturity, with Current Investments having original maturity of one year or less and Non-Current Investments having original maturity of greater than one year. At December 31, investments consist of the following:

	<b>2018</b>	<b>2017</b>
Federated Prime Obligations Fund - current	<u>\$ 4,761,975</u>	<u>\$ 4,766,757</u>
Conservative Intermediate Term	\$ 4,007,226	\$ 4,116,318
Moderate Growth Income Portfolio	<u>9,773,120</u>	<u>10,257,037</u>
Investments - noncurrent	<u>\$ 13,780,346</u>	<u>\$ 14,373,355</u>

*Current Investments* – The federated prime obligations fund 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. KaBOOM! invested cash in excess of weekly requirements in this fund in 2018.

*Non-Current Investments* – 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:

	<b>2018</b>	<b>2017</b>
Interest and dividends	\$ 455,376	\$ 385,612
Net realized and unrealized gain/(loss)	<u>(835,787)</u>	<u>1,215,629</u>
Total Investment Income/(Loss)	(380,411)	1,601,241
Less: Investment Expense	<u>(117,775)</u>	<u>(103,596)</u>
Investment Income/(Loss), net	<u>\$ (498,185)</u>	<u>\$ 1,497,645</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:

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

**KaBOOM!, INC.**  
**Notes to Consolidated Financial Statements**

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**5. INVESTMENTS (CONTINUED)**

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

	Level 1	Level 2	Level 3	Totals
<b>2018</b>				
Federated Prime Obligations Fund	\$ 4,761,975	-	-	\$ 4,761,975
Conservative Intermediate Term	4,007,226	-	-	4,007,226
Moderate Growth Income Portfolio	9,773,120	-	-	9,773,120
<b>2018 Totals</b>	<b>\$ 18,542,321</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,542,321</b>
<b>2017</b>				
Federated Prime Obligations Fund	\$ 4,766,757	-	-	\$ 4,766,757
Conservative Intermediate Term	4,116,318	-	-	4,116,318
Moderate Growth Income Portfolio	10,257,037	-	-	10,257,037
<b>2017 Totals</b>	<b>\$ 19,140,112</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,140,112</b>

**6. PREPAID EXPENSES**

At December 31, prepaid expenses consisted of the following:

	2018	2017
Other Prepaid Expenses	\$ 84,266	\$ 156,513
Prepaid Insurance	3,187	122,916
Prepaid Program Gift Cards	380	303,671
Prepaid Expenses	<b>\$ 87,833</b>	<b>\$ 583,100</b>

**7. PROPERTY, EQUIPMENT AND INTANGIBLES**

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

	2018	2017
Property and Equipment	\$ 931,405	\$ 831,448
Leasehold improvements	1,183,010	1,169,459
Vehicles	56,576	56,576
Total property and equipment	2,170,991	2,057,483
Less: Accumulated Depreciation	(1,598,426)	(1,445,329)
Property and Equipment, net	<b>\$ 572,565</b>	<b>\$ 612,154</b>

Depreciation expense for 2018 and 2017 was \$153,097 and \$173,677, respectively.

**KaBOOM!, INC.**  
**Notes to Consolidated Financial Statements**

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**7. PROPERTY, EQUIPMENT AND INTANGIBLES (CONTINUED)**

At December 31, intangibles were as follows:

	<b>2018</b>	<b>2017</b>
Total Costs	1,441,555	1,441,555
Less: Accumulated Amortization	<u>(1,265,346)</u>	<u>(1,177,764)</u>
Intangibles, net	<u>\$ 176,209</u>	<u>\$ 263,792</u>

Amortization expense for 2018 and 2017 was \$87,582 and \$87,583, respectively.

**8. 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, 2018 and 2017, grants payable were \$395,540 and \$442,477, respectively.

**9. DEFERRED REVENUE**

Deferred revenue is comprised of contracted program services for projects and programs that have not yet been completed but payments have been received in advance. 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 revenue without donor restrictions. Deferred revenue was \$3,142,357 and \$5,559,704 at December 31, 2018 and 2017, respectively.

**10. NET ASSETS WITH DONOR RESTRICTIONS**

Contributions and grants pending satisfaction of donor-imposed restrictions are reported as revenue with donor restrictions. At December 31, net assets with donor restrictions consisted of:

	<b>2018</b>	<b>2017</b>
Foundation Grants for Direct Impact Programming	<u>\$ 3,838,846</u>	<u>\$ 1,395,175</u>

**KaBOOM!, INC.**  
**Notes to Consolidated Financial Statements**

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**11. IN-KIND CONTRIBUTIONS**

KaBOOM! receives playground equipment, building supplies, marketing, advertising, consulting services, legal services and public service announcements that are recorded at fair value as income and expense at the time the items are received. This amounted to \$614,500 and \$935,033 in 2018 and 2017, respectively, and has been recorded as in-kind contributions and program expense on the statement of activities.

A member of the KaBOOM! Board of Directors during 2018 is employed by a law firm that provided certain legal services that were valued at \$58,249 in 2018 and previously was employed by a law firm that provided certain legal services that were valued at \$90,230 and \$138,291 in 2018 and 2017, 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.

**12. 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 6% of their total compensation. In 2017 KaBOOM! offered a 457(b) and 457(f) deferred compensation plan. In 2018 and 2017, contributions to the retirement plans were \$334,592 and \$354,013 respectively.

**13. 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, 2018 and 2017 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 in 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.

**KaBOOM!, INC.**  
**Notes to Consolidated Financial Statements**

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**14. LEASE COMMITMENTS**

KaBOOM! has non-cancellable lease agreements for office space in Washington, D.C., which expires July 31, 2022, and in San Bruno, CA, which expires September 30, 2025. The terms of these leases include rent abatement, tenant improvements and escalation clauses. In accordance with U.S. GAAP, fixed rent increases are recognized as rent expense on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying consolidated statements of financial position. Lease incentives are deferred and amortized on a straight line basis. The lease payments are also subject to increases based on operating expenses and real estate taxes.

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

2019	\$ 736,624
2020	755,040
2021	773,916
2022	556,910
2023	<u>96,650</u>
	2,919,140
Future Years	<u>174,856</u>
	<u><u>\$ 3,093,996</u></u>

Rent expense was \$567,330 and \$588,758 in 2018 and 2017, respectively.

**15. 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."

In 2018, MHSCO Holdings, LLC, an affiliate of The M.H. Stallman Company, a manufacturer of certain Imagination Playground play equipment, acquired all of the interests in Imagination Playground, LLC owned by an affiliate of Mr. Rockwell. Accordingly, MHSCO Holdings, LLC is the successor to such affiliate of Mr. Rockwell in the joint venture with KaBOOM!.

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 MHSCO Holdings, LLC. 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.

**KaBOOM!, INC.**  
**Notes to Consolidated Financial Statements**

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**16. 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 donation without restriction to support KaBOOM!'s mission. During 2018 and 2017, KPI revenue totaled approximately \$425,700 and \$344,000, respectively.

**17. CONTINGENT LIABILITY**

In March 2017, California Department of Tax and Fee Administration (CDTFA) (formerly known as the State of California State Board of Equalization) notified KaBOOM! that its account had been selected for a routine sales and use tax audit, which, if adversely determined, could result in a potential assessment for California sales and use tax on the value of playground equipment donated to California communities since 2010. KaBOOM! advised CDTFA that no assessment is warranted. KaBOOM! has provided a waiver to the CDTFA to toll the statute of limitations pending the outcome of such audit.

KaBOOM! believes it has no liability for any California sales and use tax and intends to defend this position vigorously. Due to inherent uncertainties, neither the timing nor outcome of the CDTFA audit, nor an accurate quantification of any resulting potential liability, may be reasonably estimated. Accordingly, no provision has been made for this potential liability as at December 31, 2018.



**KaBOOM!, INC.**  
**Notes to Consolidated Financial Statements**

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**18. FINANCIAL ASSETS and LIQUIDITY**

KaBOOM! financial assets available within one year of the consolidated statements of financial position date for general expenditures are as follows:

	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 1,329,549	\$ 1,185,861
Contributions and program services receivable, net	1,668,350	471,070
Accounts receivable	455,256	342,623
Investments, current	4,761,975	4,766,757
Investments, noncurrent	<u>13,780,346</u>	<u>14,373,355</u>
Financial assets, at year end	\$ 21,995,476	\$ 21,139,666
Less: Unavailable for general expenditures due to:		
Accounts Payable	(2,644,365)	(1,858,543)
Grant commitments for programs	(395,540)	(442,477)
Deferred Revenue	(3,142,357)	(5,559,704)
With donors restrictions	<u>(3,838,846)</u>	<u>(1,395,175)</u>
 Total financial assets available within one year	 <u>\$ 11,974,368</u>	 <u>\$ 11,883,767</u>

The Total financial assets available within one year include the board designated reserve of \$4,500,000

KaBOOM! operates with a balanced budget each year to fund operating expenses with expected revenues. KaBOOM! invests its net assets under an investment policy which requires that intermediate and long term investment balances be adjusted to allow adequate funds in cash and short-term investments to fulfill donor restrictions and meet expected annual operating needs. KaBOOM!'s operating expenses for 2018 net of expenses that were directly funded under contractual agreements were approximately \$13,200,000.

**19. RECLASSIFICATIONS**

Certain reclassifications have been made to the 2017 financial statements balances to conform to the 2018 financial statement presentation driven by the adoption of ASU 2016-14.

**20. SUBSEQUENT EVENTS**

In preparing these consolidated financial statements, KaBOOM! has evaluated events and transactions for potential recognition or disclosure through March 27, 2019, the date the consolidated financial statements were available for issue.

# KaBOOM!, INC.

## CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018 (with Comparative Totals for 2017)

	Direct Impact	Thought Leadership	Programs Total	Development	Management & General	2018 Total	2017 Total
<b>Construction</b>	9,844,542	-	9,844,542	-	-	9,844,542	8,926,740
<b>Employee Expenses</b>	5,690,224	1,414,001	7,104,225	1,692,282	839,559	9,636,066	10,164,764
<b>Grants Expenses</b>	3,036,759	-	3,036,759	-	-	3,036,759	869,756
<b>Professional Services</b>	1,150,145	210,334	1,360,479	112,766	59,259	1,532,504	1,225,189
<b>Property and Maintenance</b>	294,211	65,056	359,267	88,875	144,754	592,896	618,465
<b>Depreciation</b>	118,498	28,083	146,581	35,796	58,302	240,679	261,262
<b>Bad Debt</b>	50,000	-	50,000	-	-	50,000	469
<b>Reproduction and Delivery</b>	134,171	55,095	189,266	4,646	5,966	199,878	167,182
<b>Information Technology</b>	155,578	45,259	200,837	54,312	57,299	312,448	277,913
<b>Conferences</b>	64,802	13,967	78,769	8,811	-	87,580	121,268
<b>Travel</b>	953,072	31,833	984,905	62,648	16,932	1,064,485	956,185
<b>Telecommunications</b>	101,265	15,769	117,034	19,562	3,937	140,533	165,096
<b>Marketing</b>	101,326	147,919	249,245	20,098	-	269,343	646,047
<b>Office Expenses</b>	95,373	32,227	127,600	47,810	61,872	237,282	207,985
<b>2018 Totals</b>	<b>21,789,966</b>	<b>2,059,543</b>	<b>23,849,509</b>	<b>2,147,606</b>	<b>1,247,880</b>	<b>27,244,995</b>	
<b>2017 Totals</b>	<b>18,561,694</b>	<b>2,632,723</b>	<b>21,194,417</b>	<b>2,018,433</b>	<b>1,395,471</b>		<b>24,608,321</b>
<b>2018 Percentage</b>			<b>87%</b>	<b>8%</b>	<b>5%</b>		
<b>2017 Percentage</b>			<b>86%</b>	<b>8%</b>	<b>6%</b>		