

KaBOOM!, Inc.

Financial Statements
For the Years Ended
December 31, 2011 and 2010
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.

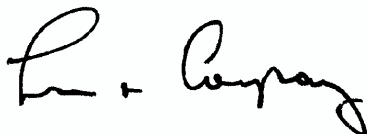
We have audited the accompanying statements of financial position of KaBOOM!, Inc. (KaBOOM!) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of KaBOOM!'s management. Our responsibility 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of functional expenses on page 12 is presented for purposes of additional analysis and is not a required part of the 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 taken as a whole.

Washington, DC, USA
March 21, 2012



KaBOOM!, Inc.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2011 and 2010

	2011	2010
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 5,006,511	\$ 2,837,313
Contributions receivable (Note 3)	255,888	418,340
Accounts receivable	689,736	748,405
Investments (Note 5)	5,104,735	5,058,274
Prepaid expenses	140,130	112,713
Other assets	<u>131,926</u>	<u>104,773</u>
Total Current Assets	11,328,926	9,279,818
Property and equipment, net (Note 6)	251,741	377,674
Intangibles, net (Note 6)	<u>43,690</u>	<u>226,684</u>
Total Assets	<u>\$ 11,624,357</u>	<u>\$ 9,884,176</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,521,564	\$ 1,323,587
Grants payable (Note 7)	1,081,500	26,500
Deferred revenue (Note 8)	1,741,720	1,869,643
Deferred rent	47,468	68,565
Obligations under capital lease	<u>-</u>	<u>9,360</u>
Total Liabilities	<u>4,392,252</u>	<u>3,297,655</u>
Net Assets		
Unrestricted		
Undesignated	2,732,105	2,086,521
Board designated for operations (Note 2)	<u>4,500,000</u>	<u>4,500,000</u>
Total Net Assets - Unrestricted	<u>7,232,105</u>	<u>6,586,521</u>
Total Liabilities and Net Assets	<u>\$ 11,624,357</u>	<u>\$ 9,884,176</u>

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

KaBOOM!, Inc.

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011	2010
REVENUES:		
Grants and Contributions	\$ 21,707,454	\$ 19,182,569
In-Kind Contributions	1,248,943	2,187,839
Investment and Interest Income	60,547	88,624
Other Income	<u>51,869</u>	<u>34,493</u>
Total revenue	<u>23,068,813</u>	<u>21,493,525</u>
EXPENSES:		
Programs	19,209,046	18,068,026
Development	2,074,241	1,859,737
Management and General	<u>1,139,942</u>	<u>1,138,195</u>
Total expense	<u>22,423,229</u>	<u>21,065,958</u>
CHANGE IN NET ASSETS	645,584	427,567
NET ASSETS—Beginning of year	<u>6,586,521</u>	<u>6,158,954</u>
NET ASSETS—End of year	<u><u>\$ 7,232,105</u></u>	<u><u>\$ 6,586,521</u></u>

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

KaBOOM!, Inc.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Cash Flows from Operating Activities:		
Change in net assets	\$ 645,584	\$ 427,567
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Depreciation and amortization	277,219	301,381
Loss on disposal of fixed assets and intangibles	37,855	-
Realized/unrealized gain on investments	(10,349)	(30,674)
Changes in assets and liabilities:		
(Increase) / Decrease in:		
Contributions Receivable	162,452	(186,513)
Accounts Receivable	58,669	(238,552)
Prepaid Expenses	(27,417)	(3,023)
Other Assets	(27,153)	14,855
Increase / (Decrease) in:		
Accounts Payable and Accrued Expenses	197,977	284,738
Grants Payable	1,055,000	26,500
Deferred Revenue	(127,923)	(1,893,310)
Deferred Rent	(21,097)	(21,097)
Net Cash Provided by/(Used in) Operating Activities	<u>2,220,817</u>	<u>(1,318,128)</u>
Cash Flows Used In Investing Activities:		
Purchases of property and equipment	(6,147)	(12,108)
Payments for intangibles	-	(100,374)
Purchase of investments	(36,112)	(42,936)
Net Cash Used in Investing Activities	<u>(42,259)</u>	<u>(155,418)</u>
Cash Flows Used In Financing Activities		
Principal payments under capital lease obligations	(9,360)	(9,134)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,169,198	(1,482,680)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>2,837,313</u>	<u>4,319,993</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 5,006,511</u>	<u>\$ 2,837,313</u>
Supplemental disclosure of cash flow information		
Cash payments for interest	<u>\$ 293</u>	<u>\$ 1,163</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 89,000 places to play, used its innovative community-build model to bring together business and community interests to construct more than 2,080 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 offices in Chicago, IL and 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, 2011 and 2010 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!’s 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 \$5,019,007 and \$2,761,865 at December 31, 2011 and 2010, 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:

	2011	2010
Receivables for playground builds	\$ 305,888	\$ 468,340
Less Allowance for Doubtful Accounts	<u>(50,000)</u>	<u>(50,000)</u>
	<u>\$ 255,888</u>	<u>\$ 418,340</u>

KaBOOM!, Inc.
Notes to Financial Statements

4. CONDITIONAL PROMISES TO GIVE

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

	2011	2010
Playground construction and other project completion	<u>\$ 20,048,049</u>	<u>\$ 16,761,580</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:

	2011	2010
Mutual Funds	<u>\$ 5,104,735</u>	<u>\$ 5,058,274</u>

The fund 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 following schedule summarizes investment and interest income:

Interest and dividends	\$ 50,198	\$ 57,950
Net unrealized gain	<u>10,349</u>	<u>30,674</u>
	<u>\$ 60,547</u>	<u>\$ 88,624</u>

KaBOOM! implemented FASB Statement No. 157, Fair Value Measurements (FAS 157), as of December 31, 2009. Implementation of FAS 157 did not affect the change in net assets or statements of financial position of KaBOOM! and had no effect on the existing fair-value measurement practices of KaBOOM!.

However, FAS 157 requires disclosure of a fair-value hierarchy of inputs KaBOOM! used 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
2011	\$ 5,104,735	\$ --	\$ --	5,104,735
2010	5,058,274	--	--	5,058,274

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:

	2011	2010
Property and Equipment	\$ 495,017	\$ 488,871
Leasehold improvements	783,696	783,696
Vehicles	<u>56,576</u>	<u>56,576</u>
 Total property and equipment	 1,335,289	 1,329,143
Less: Accumulated Depreciation	<u>(1,083,548)</u>	<u>(951,469)</u>
 Property and Equipment, net	 <u>\$ 251,741</u>	 <u>\$ 377,674</u>

Depreciation expense for 2011 and 2010 was \$132,080 and \$157,717, 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:

	2011	2010
Total Costs	648,879	861,436
Less: Accumulated Amortization	<u>(605,189)</u>	<u>(634,752)</u>
Intangibles, net	<u>\$ 43,690</u>	<u>\$ 226,684</u>

Amortization expense for 2011 and 2010 was \$145,139 and \$143,664, respectively.

7. GRANTS PAYABLE

Grants payable consists 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, 2011 and 2010, grants payable were \$1,081,500 and \$26,500, respectively.

8. DEFERRED REVENUE

Deferred revenue is comprised of contributions for projects and programs that have not yet been completed. The terms of the contracts related to 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. At December 31st deferred revenue was \$1,741,720 and \$1,869,643, in 2011 and 2010, respectively.

9. IN-KIND CONTRIBUTIONS

KaBOOM! received playground equipment, building supplies, advertising, legal services and donated facilities that were recorded at fair value as income and expense at the time the items are received. This amounted to \$1,248,943 and \$2,187,839 in 2011 and 2010, respectively, and has been recorded as in-kind revenue and program expense on the statements of activities.

Legal services, a portion of which were provided by a member of the KaBOOM! Board of Directors, were valued at \$543,959 and \$397,804 in 2011 and 2010, 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 2011 and 2010, contributions to the retirement plans were \$152,984 and \$155,362 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, 2011 and 2010 no provision was made as KaBOOM! had no net unrelated business income.

In June 2006, the Financial Accounting Standards Board (FASB) released ASC 740-10 (formerly FIN 48), Income Taxes, that provides guidance for reporting uncertainty in income taxes. For the year ended December 31, 2011, KaBOOM! has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

12. COMMITMENTS

KaBOOM! has non-cancellable lease agreements for office space in Washington, D.C., which expires May 31, 2014 and San Mateo, CA, which expires September 30, 2015. The lease payments are subject to increases based on the Consumer Price Index, operating expenses and real estate taxes.

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

2012	528,156
2013	552,501
2014	184,313
2015	<u>45,309</u>
	<u>\$ 1,310,279</u>

In-kind contributions of office space were \$36,605 and \$33,077 in 2011 and 2010, respectively. Rent expense, including in-kind contributions, was \$552,354 and \$582,186 in 2011 and 2010, 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.

As of December 31, 2011, KaBOOM! was owed \$171,447 for staff time dedicated to the joint venture. In addition, \$725,199 of imagination playground play sets were purchased by KaBOOM! during the year ended December 31, 2011.

14. SUBSEQUENT EVENTS

In preparing these financial statements, KaBOOM! has evaluated events and transactions for potential recognition or disclosure through March 21, 2012, the date the financial statements were available for issue.

KaBOOM!, Inc.

SCHEDULE OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2011 (With Comparative Totals for 2010)

	Major Programs		Program Total	Development	Management & General	2011 Total	2010 Total
	LEAD	MASS ACTION					
Construction	\$ 8,248,222	\$ -	\$ 8,248,222	\$ -	\$ -	\$ 8,248,222	\$ 8,708,331
Employee Expenses	2,676,710	1,939,049	4,615,759	1,365,502	757,994	6,739,255	6,484,299
Grants Expense	2,042,226	5,285	2,047,511	-	-	2,047,511	234,598
Professional Services	999,058	667,086	1,666,144	290,709	60,296	2,017,149	1,499,582
Property and Maintenance	206,517	145,404	351,921	96,837	141,451	590,209	582,186
Depreciation and Amortization	53,559	163,909	217,468	24,629	35,122	277,219	301,381
Bad Debts	11,256	-	11,256	-	-	11,256	16,940
Reproduction and Delivery	61,354	46,556	107,910	62,188	14,015	184,113	105,963
Information Technology	15,891	15,613	31,504	14,173	5,715	51,392	17,653
Conferences	64,106	19,605	83,711	11,071	2,076	96,858	79,177
Travel and Related	676,052	92,824	768,876	67,213	57,595	893,684	907,858
Telecommunications	124,047	28,643	152,690	26,342	16,297	195,329	214,643
Marketing	29,695	748,583	778,278	10,928	-	789,206	1,685,047
Interest and Fees	3,772	2,256	6,028	4,175	-	10,203	7,287
Office Supplies and Expense	70,392	51,376	121,768	100,474	49,381	271,623	221,013
Total Expenses	\$ 15,282,857	\$ 3,926,189	\$ 19,209,046	\$ 2,074,241	\$ 1,139,942	\$ 22,423,229	
2010 Totals	\$ 13,943,750	\$ 4,124,276	\$ 18,068,026	\$ 1,859,737	\$ 1,138,195		\$ 21,065,958
2011 Percentage	68%	18%	86%	9%	5%	100%	
2010 Percentage	66%	20%	86%	9%	5%		100%