

KaBOOM!, Inc.

Consolidated Financial Statements
For the Years Ended
December 31, 2017 and 2016
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, 2017 and 2016, 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.

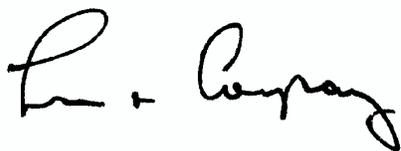
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and 2016 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 15 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.

A handwritten signature in black ink, appearing to read "L. + Company".

Washington, DC, USA
March 14, 2018

KaBOOM!, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2017 and 2016

	2017	2016
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,185,861	\$ 6,557,141
Contributions and program services receivable (Note 3)	471,070	1,203,274
Accounts receivable	342,623	372,977
Investments (Note 5)	4,766,757	1,622,640
Prepaid expenses (Note 6)	583,100	195,704
Other assets	<u>53,499</u>	<u>35,646</u>
Total Current Assets	7,402,910	9,987,382
Property and equipment, net (Note 7)	612,154	750,775
Intangibles, net (Note 7)	263,791	351,374
Investments (Note 5)	<u>14,373,355</u>	<u>11,911,870</u>
Total Assets	<u>\$ 22,652,210</u>	<u>\$ 23,001,401</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,858,543	\$ 2,163,574
Grants payable (Note 8)	442,477	1,506,307
Deferred revenue (Note 9)	5,559,704	4,959,380
Deferred rent (Note 14)	<u>608,465</u>	<u>739,332</u>
Total Liabilities	<u>8,469,189</u>	<u>9,368,593</u>
Net Assets		
Unrestricted		
Undesignated	8,287,846	7,648,070
Board designated for operations (Note 2)	<u>4,500,000</u>	<u>4,500,000</u>
Total Unrestricted Net Assets	12,787,846	12,148,070
Temporarily Restricted (Note 10)	<u>1,395,175</u>	<u>1,484,738</u>
Total Net Assets	<u>14,183,021</u>	<u>13,632,808</u>
Total Liabilities and Net Assets	<u>\$ 22,652,210</u>	<u>\$ 23,001,401</u>

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

KaBOOM!, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES						
Contracted Program Services	\$ 18,522,049	\$ -	\$ 18,522,049	\$ 21,854,391	\$ -	\$ 21,854,391
Contributions and Grants	2,808,184	1,395,175	4,203,359	2,914,095	1,109,981	4,024,076
In-Kind Contributions	935,033	-	935,033	966,593	-	966,593
Investment Income/(Loss)	1,601,241	-	1,601,241	853,594	-	853,594
Miscellaneous Income	448	-	448	35,801	-	35,801
Released From Restrictions	<u>1,484,738</u>	<u>(1,484,738)</u>	<u>-</u>	<u>2,378,496</u>	<u>(2,378,496)</u>	<u>-</u>
Total Revenues	<u>25,351,693</u>	<u>(89,563)</u>	<u>25,262,130</u>	<u>29,002,970</u>	<u>(1,268,515)</u>	<u>27,734,455</u>
EXPENSES						
Programs	21,194,417	-	21,194,417	23,183,562	-	23,183,562
Development	2,018,433	-	2,018,433	2,143,092	-	2,143,092
Management and General	<u>1,499,067</u>	<u>-</u>	<u>1,499,067</u>	<u>1,735,522</u>	<u>-</u>	<u>1,735,522</u>
Total Expenses	<u>24,711,917</u>	<u>-</u>	<u>24,711,917</u>	<u>27,062,176</u>	<u>-</u>	<u>27,062,176</u>
CHANGE IN NET ASSETS	639,776	(89,563)	550,213	1,940,794	(1,268,515)	672,279
NET ASSETS—Beginning of year	<u>12,148,070</u>	<u>1,484,738</u>	<u>13,632,808</u>	<u>10,207,276</u>	<u>2,753,253</u>	<u>12,960,529</u>
NET ASSETS—End 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>

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

KaBOOM!, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ 550,213	\$ 672,279
Adjustments to reconcile change in net assets to net cash provided by/ (used in) operating activities:		
Depreciation and amortization	261,260	273,243
Loss on disposal of equipment	-	3,295
Realized/unrealized (gain)/loss on investments	(1,215,629)	(561,832)
Changes in assets and liabilities:		
(Increase) / Decrease in:		
Contributions and Program Services Receivable	732,204	1,571,020
Accounts Receivable	30,354	(108,258)
Prepaid Expenses	(387,396)	52,533
Other Assets	(17,853)	13,920
Increase / (Decrease) in:		
Accounts Payable and Accrued Expenses	(305,031)	416,546
Grants Payable	(1,063,830)	380,269
Deferred Revenue	600,324	2,238,562
Deferred Rent	(130,867)	(117,730)
Net Cash Provided by/ (used in) Operating Activities	<u>(946,251)</u>	<u>4,833,847</u>
Cash Flows Used in Investing Activities:		
Purchases of property and equipment	(35,056)	(55,663)
Proceeds from sale of investments	2,594,612	5,265,406
Payments for intangibles	-	(3,973)
Purchase of investments	<u>(6,984,585)</u>	<u>(5,476,218)</u>
Net Cash Used in Investing Activities	<u>(4,425,029)</u>	<u>(270,448)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(5,371,280)	4,563,399
CASH AND CASH EQUIVALENTS—Beginning of year	<u>6,557,141</u>	<u>1,993,742</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 1,185,861</u>	<u>\$ 6,557,141</u>
Supplemental disclosure:		
Donated Securities	<u>\$ 604,763</u>	<u>\$ 601,362</u>

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

KaBOOM!, INC.
Notes to Consolidated Financial Statements

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 over 9 million kids. Headquartered in Washington, D.C., KaBOOM! also has an office in San Bruno, CA.

KaBOOM! engages in activities designed to inspire communities to make play the easy choice and works to drive the national discussion about the importance of creating and expanding opportunities for play in both traditional and nontraditional spaces. 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! playground 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 ample opportunities to play.

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 are recognized as unrestricted revenue when received or unconditionally promised, whichever comes first. Contributions and grants received with donor-imposed restrictions are reported as temporarily restricted revenue.

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!.

KaBOOM!, INC.
Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Board Designated net assets – The Board of Directors has designated \$4,500,000 as of December 31, 2017 and 2016 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.

Temporarily restricted net assets – Contributions and grants pending satisfaction of donor-imposed, time or purpose restrictions are reported as temporarily restricted support. Donor-imposed restrictions satisfied in the year received are recognized as unrestricted revenue.

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 public service announcements 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 \$860,777 and \$6,309,952 at December 31, 2017 and 2016, 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements—

In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. The update changes the manner by which nonprofit organizations classify net assets and is intended to improve the usefulness of information presented in financial statements and notes about nonprofit organization liquidity, financial performance and cash flows. The guidance is effective beginning in fiscal year 2018.

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:

	2017	2016
Contributions and program services receivable	\$ 521,070	\$ 1,253,274
Less: Allowance for Doubtful Accounts	<u>(50,000)</u>	<u>(50,000)</u>
Contributions and Program Services Receivable, net	<u>\$ 471,070</u>	<u>\$ 1,203,274</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:

	2017	2016
Playground construction and other project completion	<u>\$ 5,480,608</u>	<u>\$ 4,199,166</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.

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:

	2017	2016
Current Investments		
Federated Prime Obligations Fund	\$ 4,766,757	\$ 1,622,640
Non-Current Investments		
Conservative Intermediate Term	\$ 4,116,318	\$ 3,790,522
Moderate Growth Income Portfolio	<u>10,257,037</u>	<u>8,121,348</u>
	<u>\$ 14,373,355</u>	<u>\$ 11,911,870</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 2017. In prior years, excess cash funds were invested in money markets investments that were classified as cash equivalents.

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.

KaBOOM!, INC.
Notes to Consolidated Financial Statements

5. INVESTMENTS (CONTINUED)

The following schedule summarizes investment income:

	2017	2016
Interest and dividends	\$ 385,612	\$ 291,762
Net realized and unrealized gain/(loss)	<u>1,215,629</u>	<u>561,832</u>
Investment Income/(Loss)	<u><u>\$ 1,601,241</u></u>	<u><u>\$ 853,594</u></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.

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

	Level 1	Level 2	Level 3	Totals
2017				
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
2017 Totals	<u><u>\$ 19,140,112</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,140,112</u></u>
2016				
Government Backed Short Term Investment	\$ 1,622,640	-	-	\$ 1,622,640
Conservative Intermediate Term	3,790,522	-	-	3,790,522
Moderate Growth Income Portfolio	8,121,348	-	-	8,121,348
2016 Totals	<u><u>\$ 13,534,510</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 13,534,510</u></u>

6. PREPAID EXPENSES

At December 31, prepaid expenses consisted of the following:

	2017	2016
Other Prepaid Expenses	\$ 156,513	\$ 108,359
Prepaid Insurance	122,916	87,345
Prepaid Program Gift Cards	<u>303,671</u>	<u>-</u>
Prepaid Expenses	<u><u>\$ 583,100</u></u>	<u><u>\$ 195,704</u></u>

KaBOOM!, INC.
Notes to Consolidated Financial Statements

7. PROPERTY, EQUIPMENT AND INTANGIBLES

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

	2017	2016
Property and Equipment	\$ 831,448	\$ 800,186
Leasehold improvements	1,169,459	1,165,665
Vehicles	<u>56,576</u>	<u>56,576</u>
 Total property and equipment	 2,057,483	 2,022,427
Less: Accumulated Depreciation	<u>(1,445,329)</u>	<u>(1,271,652)</u>
 Property and Equipment, net	 <u>\$ 612,154</u>	 <u>\$ 750,775</u>

Depreciation expense for 2017 and 2016 was \$173,677 and \$185,660, respectively.

At December 31, intangibles were as follows:

	2017	2016
Total Costs	1,441,555	1,441,555
Less: Accumulated Amortization	<u>(1,177,764)</u>	<u>(1,090,181)</u>
 Intangibles, net	 <u>\$ 263,792</u>	 <u>\$ 351,374</u>

Amortization expense for 2017 and 2016 was \$87,583.

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, 2017 and 2016, grants payable were \$442,477 and \$1,506,307, 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 unrestricted revenue. Deferred revenue was \$5,559,704 and \$4,959,380 at December 31, 2017 and 2016, respectively.

KaBOOM!, INC.
Notes to Consolidated Financial Statements

10. TEMPORARILY RESTRICTED NET ASSETS

Contributions and grants pending satisfaction of donor-imposed restrictions are reported as temporarily restricted support. At December 31, net assets were temporarily restricted for the following:

	2017	2016
Foundation Grant for Direct Impact Programming	<u>\$ 1,395,175</u>	<u>\$ 1,484,738</u>

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 \$935,033 and \$966,593 in 2017 and 2016, 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 is employed by a law firm that provided the legal services that were valued at \$138,291 and \$167,000 in 2017 and 2016, 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. KaBOOM! also offers a 457(b) and 457(f) deferred compensation plan. In 2017 and 2016, contributions to the retirement plans were \$354,013 and \$322,524 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, 2017 and 2016 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

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:

2018	\$ 721,968
2019	740,017
2020	758,518
2021	777,481
2022	<u>558,980</u>
	3,556,965
Future Years	<u>268,537</u>
	<u>\$ 3,825,502</u>

Rent expense was \$588,758 and \$549,012 in 2017 and 2016, 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."

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.

KaBOOM!, INC.
Notes to Consolidated Financial Statements

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 unrestricted donation to support KaBOOM!'s mission. During 2017 and 2016, KPI revenue totaled approximately \$344,000 and \$326,000, respectively.

17. CONTINGENT LIABILITY

In March 2016, 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 2008. KaBOOM! advised CDTFA that no assessment is warranted and, in May 2016, requested a ruling (legal opinion) from CDTFA regarding such potential liability. CDTFA agreed to provide such ruling and upon KaBOOM!'s tolling of the statute of limitations for the tax years subject to audit, CDTFA has stayed the audit pending the ruling.

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, 2017.

18. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, KaBOOM! has evaluated events and transactions for potential recognition or disclosure through March 14, 2018, the date the consolidated financial statements were available for issue.

KaBOOM!, INC.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2017 (with Comparative Totals for 2016)

	Direct Impact	Thought Leadership	Programs Total	Development	Management & General	2017 Total	2016 Total
Construction	8,926,740	-	8,926,740	-	-	8,926,740	9,453,673
Employee Expenses	5,889,591	1,632,440	7,522,031	1,658,808	983,925	10,164,764	9,222,339
Grants Expenses	869,756	-	869,756	-	-	869,756	2,764,513
Professional Services	921,732	220,981	1,142,713	41,660	40,816	1,225,189	2,157,104
Property and Maintenance	306,217	75,076	381,293	86,448	150,724	618,465	576,347
Depreciation	128,330	33,031	161,361	36,735	63,166	261,262	273,243
Bad Debt	469	-	469	-	-	469	30,262
Reproduction and Delivery	114,303	38,697	153,000	6,580	7,602	167,182	141,121
Information Technology	141,399	40,535	181,934	41,911	54,068	277,913	266,544
Conferences	89,833	22,188	112,021	9,247	-	121,268	76,071
Travel and Entertainment	820,638	39,955	860,593	64,605	30,987	956,185	955,458
Telecommunications	111,948	21,252	133,200	22,236	9,660	165,096	184,052
Marketing	152,810	484,391	637,201	8,846	-	646,047	673,559
Interest and Fees	-	-	-	-	103,687	103,687	85,657
Office Expenses	87,928	24,177	112,105	41,357	54,432	207,894	202,233
2017 Totals	18,561,694	2,632,723	21,194,417	2,018,433	1,499,067	24,711,917	
2016 Totals	20,560,601	2,622,961	23,183,562	2,143,092	1,735,522		27,062,176
2017 Percentage			86%	8%	6%		
2016 Percentage			86%	8%	6%		