

KaBOOM!, Inc.

Consolidated Financial Statements
For the Years Ended
December 31, 2016 and 2015
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, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness accounting principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KaBOOM! as of December 31, 2016 and 2015 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 14 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 "P. Company". The signature is written in a cursive, flowing style.

Washington, DC, USA
March 9, 2017

KaBOOM!, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 and 2015

	2016	2015
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 6,557,141	\$ 1,993,742
Contributions and program services receivable (Note 3)	1,203,274	2,774,294
Accounts receivable	372,977	264,719
Investments (Note 5)	1,622,640	4,629,163
Prepaid expenses	195,704	248,237
Other assets	<u>35,646</u>	<u>49,566</u>
Total Current Assets	9,987,382	9,959,721
Property and equipment, net (Note 6)	750,775	884,067
Intangibles, net (Note 6)	351,374	434,984
Investments (Note 5)	<u>11,911,870</u>	<u>8,132,703</u>
Total Assets	<u>\$ 23,001,401</u>	<u>\$ 19,411,475</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,163,574	\$ 1,747,028
Grants payable (Note 7)	1,506,307	1,126,038
Deferred revenue (Note 8)	4,959,380	2,720,818
Deferred rent (Note 13)	<u>739,332</u>	<u>857,062</u>
Total Liabilities	<u>9,368,593</u>	<u>6,450,946</u>
Net Assets		
Unrestricted		
Undesignated	7,648,070	5,707,276
Board designated for operations (Note 2)	<u>4,500,000</u>	<u>4,500,000</u>
Total Unrestricted Net Assets	12,148,070	10,207,276
Temporarily Restricted (Note 9)	<u>1,484,738</u>	<u>2,753,253</u>
Total Net Assets	<u>13,632,808</u>	<u>12,960,529</u>
Total Liabilities and Net Assets	<u>\$ 23,001,401</u>	<u>\$ 19,411,475</u>

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

KaBOOM!, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2016 AND 2015

	Unrestricted	Temporarily Restricted	2016	Unrestricted	Temporarily Restricted	2015
REVENUES						
Contracted Program Services	\$ 21,854,391	\$ -	\$ 21,854,391	\$ 20,551,573	\$ -	\$ 20,551,573
Contributions and Grants	2,914,095	1,109,981	4,024,076	3,776,402	2,753,253	6,529,655
In-Kind Contributions	966,593	-	966,593	1,599,884	-	1,599,884
Investment Income/(Loss)	853,594	-	853,594	(88,703)	-	(88,703)
Miscellaneous Income	35,801	-	35,801	-	-	-
Released From Restrictions	<u>2,378,496</u>	<u>(2,378,496)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>29,002,970</u>	<u>(1,268,515)</u>	<u>27,734,455</u>	<u>25,839,156</u>	<u>2,753,253</u>	<u>28,592,409</u>
EXPENSES						
Programs	23,183,562	-	23,183,562	21,371,810	-	21,371,810
Development	2,143,092	-	2,143,092	1,889,823	-	1,889,823
Management and General	<u>1,735,522</u>	<u>-</u>	<u>1,735,522</u>	<u>1,802,235</u>	<u>-</u>	<u>1,802,235</u>
Total Expenses	<u>27,062,176</u>	<u>-</u>	<u>27,062,176</u>	<u>25,063,868</u>	<u>-</u>	<u>25,063,868</u>
CHANGE IN NET ASSETS	1,940,794	(1,268,515)	672,279	775,288	2,753,253	3,528,541
NET ASSETS—Beginning of year	<u>10,207,276</u>	<u>2,753,253</u>	<u>12,960,529</u>	<u>9,431,988</u>	<u>-</u>	<u>9,431,988</u>
NET ASSETS—End 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>

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

KaBOOM!, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash Flows from Operating Activities:		
Change in net assets	\$ 672,279	\$ 3,528,541
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	273,243	269,602
Loss on disposal of equipment	3,295	-
Realized/unrealized (gain)/loss on investments	(561,832)	325,912
Changes in assets and liabilities:		
(Increase) / Decrease in:		
Contributions and Program Services Receivable	1,571,020	(2,528,506)
Accounts Receivable	(108,258)	527,873
Prepaid Expenses	52,533	(37,323)
Other Assets	13,920	(5,561)
Increase / (Decrease) in:		
Accounts Payable and Accrued Expenses	416,546	(230,193)
Grants Payable	380,269	(775,800)
Deferred Revenue	2,238,562	(223,188)
Deferred Rent	(117,730)	(64,131)
Net Cash Provided by Operating Activities	<u>4,833,847</u>	<u>787,226</u>
Cash Flows Used in Investing Activities:		
Purchases of property and equipment	(55,663)	(19,429)
Proceeds from sale of investments	5,265,406	885,901
Payments for intangibles	(3,973)	-
Purchase of investments	<u>(5,476,218)</u>	<u>(1,060,109)</u>
Net Cash Used in Investing Activities	<u>(270,448)</u>	<u>(193,637)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,563,399	593,589
CASH AND CASH EQUIVALENTS—Beginning of year	<u>1,993,742</u>	<u>1,400,153</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 6,557,141</u>	<u>\$ 1,993,742</u>
Supplemental disclosure:		
Donated Securites	<u>\$ 601,362</u>	<u>\$ 503,354</u>

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

KaBOOM!, INC.
Notes to Consolidated Financial Statements

1. ORGANIZATION

KaBOOM! is the national non-profit dedicated to 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, open, or improve nearly 16,700 playgrounds, engaged more than one million volunteers, and served 9.0 million kids. Headquartered in Washington, D.C., KaBOOM! also has an office in San Bruno, CA.

KaBOOM! works to catalyze and create great places to play, encourage cities to make play the easy choice for kids and families, and elevate public discourse around the importance of ensuring under-resourced kids get the play they need. We do this through two key programs:

- Our Community Play Catalyst (CPC) program, which facilitates the creation of great places to play, including through KaBOOM!-led, all-volunteer, done-in-a-day playground builds that unite communities around a common cause: the health and well-being of their kids; and
- Our External Affairs program, which engages in activities designed to inspire communities to promote and support play, and to drive the national discussion about the importance of play in fostering healthy and productive lives.

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, 2016 and 2015 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 \$6,309,952 and \$1,572,450 at December 31, 2016 and 2015, respectively.

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

KaBOOM!, INC.
Notes to Consolidated Financial Statements

3. CONTRIBUTIONS & PROGRAM SERVICES RECEIVABLE

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

	2016	2015
Contributions and program services receivable	\$ 1,253,274	\$ 2,856,294
Less: Allowance for Doubtful Accounts	<u>(50,000)</u>	<u>(82,000)</u>
Contributions and Program Services Receivable, net	<u>\$ 1,203,274</u>	<u>\$ 2,774,294</u>

4. CONTRACTED PROGRAM SERVICES

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

	2016	2015
Playground construction and other project completion	<u>\$ 4,199,166</u>	<u>\$ 3,522,690</u>

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

5. INVESTMENTS

At December 31, investments consist of the following:

	2016	2015
Government Backed Short Term Investment	\$ 1,622,640	\$ 4,629,163
Conservative Intermediate Term	3,790,522	2,575,394
Moderate Growth Income Portfolio	<u>8,121,348</u>	<u>5,557,309</u>
Investments	<u>\$ 13,534,510</u>	<u>\$ 12,761,866</u>

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

KaBOOM!, INC.
Notes to Consolidated Financial Statements

5. INVESTMENTS (CONTINUED)

The following schedule summarizes investment income:

	2016	2015
Interest and dividends	\$ 291,762	\$ 237,209
Net realized and unrealized gain/(loss)	<u>561,832</u>	<u>(325,912)</u>
Investment Income/(Loss)	<u>\$ 853,594</u>	<u>\$ (88,703)</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
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>\$ 13,534,510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,534,510</u>
2015				
Government Backed Short Term Investment	\$ 4,629,163	-	-	\$ 4,629,163
Conservative Intermediate Term	2,575,394	-	-	2,575,394
Moderate Growth Income Portfolio	5,557,309	-	-	5,557,309
2015 Totals	<u>\$ 12,761,866</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,761,866</u>

KaBOOM!, INC.
Notes to Consolidated Financial Statements

6. PROPERTY, EQUIPMENT AND INTANGIBLES

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

	2016	2015
Property and Equipment	\$ 800,186	\$ 794,188
Leasehold improvements	1,165,665	1,157,312
Vehicles	<u>56,576</u>	<u>56,576</u>
 Total property and equipment	 2,022,427	 2,008,076
Less: Accumulated Depreciation	<u>(1,271,652)</u>	<u>(1,124,009)</u>
 Property and Equipment, net	 <u>\$ 750,775</u>	 <u>\$ 884,067</u>

Depreciation expense for 2016 and 2015 was \$185,660 and \$182,587, respectively. Equipment with a cost of \$41,312 and accumulated depreciation of \$38,017 was disposed during 2016 generating a loss of \$3,295.

At December 31, intangibles were as follows:

	2016	2015
Total Costs	1,441,555	1,437,582
Less: Accumulated Amortization	<u>(1,090,181)</u>	<u>(1,002,598)</u>
 Intangibles, net	 <u>\$ 351,374</u>	 <u>\$ 434,984</u>

Amortization expense for 2016 and 2015 was \$87,583 and \$87,015, 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, 2016 and 2015, grants payable were \$1,506,307 and \$1,126,038, respectively.

8. DEFERRED REVENUE

Deferred revenue is comprised of contracted program services for projects and programs that have not yet been completed. The terms of the agreements for these services require that certain conditions must be met or the unspent funds are to be returned to the donor. Once these conditions are satisfied the funds are moved from deferred and recognized as unrestricted revenue. Deferred revenue was \$4,959,380 and \$2,720,818 at December 31, 2016 and 2015, respectively.

KaBOOM!, INC.
Notes to Consolidated Financial Statements

9. 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:

	2016	2015
Foundation Grant for Playability Programming	<u>\$ 1,484,738</u>	<u>\$ 2,753,253</u>
Temporarily Restricted Net Assets	<u>\$ 1,484,738</u>	<u>\$ 2,753,253</u>

10. 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 \$966,593 and \$1,599,884 in 2016 and 2015, 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 \$167,000 and \$285,000 in 2016 and 2015, 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.

11. 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 2016 and 2015, contributions to the retirement plans were \$322,524 and \$275,874, respectively.

12. 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, 2016 and 2015 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

13. LEASE COMMITMENTS

KaBOOM! has a non-cancellable lease agreement 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:

2017	\$ 702,721
2018	720,289
2019	738,296
2020	756,753
2021	<u>775,672</u>
	3,693,730
Future Years	<u>824,834</u>
	<u>\$ 4,518,564</u>

Rent expense was \$549,012 and \$503,382 in 2016 and 2015, respectively.

14. 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! made purchases of Imagination Playground sets totaling \$311,755 in 2015. Effective May 2015 KaBOOM! was authorized by Imagination Playground LLC to purchase Imagination Playground sets directly from the manufacturer and these sets were no longer purchased through Imagination Playground LLC.

KaBOOM!, INC.
Notes to Consolidated Financial Statements

15. 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 2016 and 2015, KPI revenue totaled approximately \$326,000 and \$154,000, respectively.

16. CONTINGENT LIABILITY

In March 2016, the State of California State Board of Equalization (BOE) 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 over the past eight years. KaBOOM! advised BOE that no assessment is warranted and, in May 2016, requested a ruling (legal opinion) from BOE regarding such potential liability. BOE agreed to provide such ruling and upon KaBOOM!'s tolling of the statute of limitations for the tax years subject to audit, BOE 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 BOE 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, 2016.

17. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, KaBOOM! has evaluated events and transactions for potential recognition or disclosure through March 9, 2017, the date the consolidated financial statements were available for issue.

KaBOOM!, INC.

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016 (with Comparative Totals for 2015)

	CPC	External Affairs	Programs Total	Development	Management & General	2016 Total	2015 Total
Construction	9,453,673	-	9,453,673	-	-	9,453,673	9,070,059
Employee Expenses	4,796,718	1,609,013	6,405,732	1,664,048	1,152,559	9,222,339	9,441,424
Grants Expenses	2,764,513	-	2,764,513	-	-	2,764,513	1,880,377
Professional Services	1,609,171	301,509	1,910,680	166,194	80,230	2,157,104	3,214,174
Property and Maintenance	248,204	80,254	328,458	82,080	165,809	576,347	479,817
Depreciation	117,411	37,964	155,375	39,434	78,434	273,243	301,226
Bad Debt	30,262	-	30,262	-	-	30,262	15,010
Reproduction and Delivery	80,843	18,179	99,022	29,461	12,638	141,121	415,405
Information Technology	118,684	42,725	161,409	40,315	64,820	266,544	207,677
Conferences	45,140	18,924	64,064	6,612	5,395	76,071	139,069
Travel and Entertainment	861,116	40,823	901,939	39,715	13,804	955,458	1,226,075
Telecommunications	109,284	27,420	136,704	21,664	25,684	184,052	162,596
Marketing	254,136	415,459	669,595	3,964	-	673,559	1,193,141
Interest and Fees	365	-	365	2,635	82,657	85,657	70,787
Office Expenses	71,080	30,691	101,771	46,970	53,492	202,233	280,836
2016 Totals	20,560,601	2,622,961	23,183,562	2,143,092	1,735,522	27,062,176	
2015 Totals	17,683,413	3,688,397	21,371,810	1,889,823	1,802,235		25,063,868
2016 Percentage			86%	8%	6%		
2015 Percentage			85%	8%	7%		