PLAYWORKS

EDUCATION ENERGIZED

(A Nonprofit Public Benefit Corporation)

***

FINANCIAL STATEMENTS
INCLUDING SUPPLEMENTARY INFORMATION
ON FEDERAL FINANCIAL AWARDS

Years Ended June 30, 2012 and 2011

PLAYWORKS
EDUCATION ENERGIZED
(A Nonprofit Public Benefit Corporation)

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SECTION I

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Playworks Education Energized
(A Nonprofit Public Benefit Corporation)
Oakland, California

We have audited the accompanying statements of financial position of Playworks Education Energized, (formerly "Sports4Kids"), ("Playworks" or the "Organization"), (a nonprofit public benefit corporation) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the 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 Playworks Education Energized as of June 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2012, on our consideration of Playworks Education Energized's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

55 ALMADEN BLVD. SUITE 600 SAN JOSE, CA 95113-1605 (408) 494-1200 (P) (408) 279-8186 (F)

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 audit 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
November 12, 2012

(A Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 2,254,019	$ 867,607
Accounts Receivable, Less Allowance for Doubtful Accounts of $74,331 and $75,902 in 2012 and 2011, Respectively	723,122	850,269
Grants Receivable, Current Portion (See Note 5)	4,415,314	6,470,224
Pledges Receivable	167,800	76,769
Prepaid Expenses	454,943	268,494
Total Current Assets	8,015,198	8,533,363
PROPERTY AND EQUIPMENT, NET	290,289	423,241
OTHER ASSETS:		
Grants Receivable, Net of Current Portion (See Note 5)	5,756,925	165,500
Deposits	41,215	29,227
Intangible Assets	4,095	8,750
Total Other Assets	5,802,235	203,477
TOTAL ASSETS	$ 14,107,722	$ 9,160,081

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES:		
Accounts Payable	$ 259,286	$ 18,397
Accrued Liabilities	979,227	792,614
Deferred Revenue	313,254	179,643
Lines of Credit	-	1,700,000
Total Current Liabilities	1,551,767	2,690,654
LONG-TERM LIABILITIES, NET OF CURRENT PORTION:		
Lines of Credit	2,900,000	1,650,000
Other Long-Term Liabilities	49,489	40,969
Total Long-Term Liabilities, Net of Current Portion	2,949,489	1,690,969
Total Liabilities	4,501,256	4,381,623
NET ASSETS:		
Unrestricted Net Assets (Deficit) (See Note 17)	(411,682)	83,956
Temporarily Restricted Net Assets (See Note 8)	10,018,148	4,694,502
Total Net Assets	9,606,466	4,778,458
TOTAL LIABILITIES AND NET ASSETS	$ 14,107,722	$ 9,160,081

The Accompanying Notes are an Integral Part of these Financial Statements.

PLAYWORKS
EDUCATION ENERGIZED
(A Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012 with Comparative Totals for the Year Ended June 30, 2011

	2012			2011
	Unrestricted	Temporarily Restricted	TOTAL	TOTAL
SUPPORT AND REVENUE:				
Support:				
Foundation Grants (See Note 2)	$ 57,646	$ 14,437,433	$ 14,495,079	$ 1,542,074
Corporate Support	890,656	1,340,800	2,231,456	1,257,243
Contributions In-Kind	1,240,522	-	1,240,522	1,854,871
Events, Net of Donor Benefit	580,590	-	580,590	258,436
Individual Contributions	64,084	351,162	415,246	339,061
Total Support	2,833,498	16,129,395	18,962,893	5,251,685
Revenue:				
Direct Service Fees	7,332,261	-	7,332,261	6,060,030
Training Fees	688,805	-	688,805	294,955
Government Grants	2,133,046	-	2,133,046	2,042,536
Other Revenue	179,477	-	179,477	108,186
Investments Income	503	-	503	2,663
Loss on Disposal of Equipment	(39,888)	-	(39,888)	-
Total Revenue	10,294,204	-	10,294,204	8,508,370
Total Support and Revenue	13,127,702	16,129,395	29,257,097	13,760,055
Net Assets Released from Restrictions	10,805,749	(10,805,749)	-	-
Total Support, Revenue and Net Assets Released from Restrictions	23,933,451	5,323,646	29,257,097	13,760,055
EXPENSES:				
Program Services:				
Direct Services	18,915,902	-	18,915,902	16,986,187
Training Services	1,075,501	-	1,075,501	615,474
Total Program Services	19,991,403	-	19,991,403	17,601,661
Supporting Services:				
Management and General	2,603,334	-	2,603,334	2,228,608
Fundraising	1,834,352	-	1,834,352	1,367,692
Total Supporting Services	4,437,686	-	4,437,686	3,596,300
Total Expenses	24,429,089	-	24,429,089	21,197,961
CHANGE IN NET ASSETS (See Note 2)	(495,638)	5,323,646	4,828,008	(7,437,906)
NET ASSETS, Beginning of Year	83,956	4,694,502	4,778,458	12,216,364
NET ASSETS (DEFICIT), End of Year (See Note 17)	$ (411,682)	$ 10,018,148	$ 9,606,466	$ 4,778,458

The Accompanying Notes are an Integral Part of these Financial Statements.

PLAYWORKS
EDUCATION ENERGIZED
(A Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	TOTAL
SUPPORT AND REVENUE:			
Support:			
Foundation Grants (See Note 2)	$ 48,499	$ 1,493,575	$ 1,542,074
Corporate Support	353,243	904,000	1,257,243
Contributions In-Kind	1,854,871	-	1,854,871
Events, Net of Donor Benefit	258,436	-	258,436
Individual Contributions	339,061	-	339,061
Total Support	2,854,110	2,397,575	5,251,685
Revenue:			
Direct Service Fees	6,060,030	-	6,060,030
Training Fees	294,955	-	294,955
Government Grants	2,042,536	-	2,042,536
Other Revenue	108,186	-	108,186
Investments Income	2,663	-	2,663
Total Revenue	8,508,370	-	8,508,370
Total Support and Revenue	11,362,480	2,397,575	13,760,055
Net Assets Released from Restrictions	9,466,551	(9,466,551)	-
Total Support, Revenue and Net Assets Released from Restrictions	20,829,031	(7,068,976)	13,760,055
EXPENSES:			
Program Services:			
Direct Services	16,986,187	-	16,986,187
Training Services	615,474	-	615,474
Total Program Services	17,601,661	-	17,601,661
Supporting Services:			
Management and General	2,228,608	-	2,228,608
Fundraising	1,367,692	-	1,367,692
Total Supporting Services	3,596,300	-	3,596,300
Total Expenses	21,197,961	-	21,197,961
CHANGE IN NET ASSETS (See Note 2)	(368,930)	(7,068,976)	(7,437,906)
NET ASSETS, Beginning of Year	452,886	11,763,478	12,216,364
NET ASSETS, End of Year (See Note 17)	$ 83,956	$ 4,694,502	$ 4,778,458

The Accompanying Notes are an Integral Part of these Financial Statements.

PLAYWORKS
EDUCATION ENERGIZED
(A Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2012 with Comparative Totals for the Year Ended June 30, 2011

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTAL	
	Direct Services	Training Services	Total	Management and General	Fundraising	Total	2012	2011
EXPENSES:								
Salaries and Wages	$ 12,878,620	$ 659,785	$ 13,538,405	$ 1,322,218	$ 1,060,106	$ 2,382,324	$ 15,920,729	$ 13,056,736
Employee Benefits	1,654,331	51,374	1,705,705	87,888	106,849	194,737	1,900,442	1,855,052
Payroll Tax	1,099,585	52,763	1,152,348	95,892	85,982	181,874	1,334,222	1,029,945
Total Salaries and Related Expenses	15,632,536	763,922	16,396,458	1,505,998	1,252,937	2,758,935	19,155,393	15,941,733
Other Professional Services, Including In-Kind	1,029,178	25,442	1,054,620	174,167	97,534	271,701	1,326,321	2,068,158
Travel and Related Expenses, Including In-Kind	672,578	111,321	783,899	99,559	336,629	436,188	1,220,087	847,799
Rent, Including In-Kind	579,994	39,612	619,606	180,286	16,749	197,035	816,641	639,273
Staff Recruitment and Training	181,613	11,901	193,514	62,505	20,087	82,592	276,106	300,342
School Supplies	183,394	1,341	184,735	8,454	26,781	35,235	219,970	189,505
Dues, Licenses, Service Fees	90,292	2,983	93,275	79,666	17,011	96,677	189,952	172,041
Legal Fees, Including In-Kind	-	-	-	137,261	-	137,261	137,261	71,983
Telephone	91,707	11,809	103,516	21,428	2,986	24,414	127,930	136,721
Printing and Publications	35,439	14,395	49,834	44,671	29,646	74,317	124,151	120,471
Small Equipment and Maintenance	55,046	5,611	60,657	31,665	2,381	34,046	94,703	48,238
Interest	75,989	3,370	79,359	8,126	3,124	11,250	90,609	63,061
Supplies	35,948	24,217	60,165	23,387	4,354	27,741	87,906	101,347
Bad Debt	83,254	-	83,254	-	-	-	83,254	90,772
Insurance	60,143	3,455	63,598	7,585	2,803	10,388	73,986	67,047
Marketing and Advertising, Including In-Kind	9,081	17,831	26,912	31,425	2,842	34,267	61,179	35,626
Postage	21,339	6,520	27,859	25,767	6,916	32,683	60,542	54,134
Accounting Fees	-	-	-	53,475	-	53,475	53,475	50,040
Utilities	11,246	3,169	14,415	10,182	1,186	11,368	25,783	30,457
Government Grant Commission	10,402	-	10,402	-	-	-	10,402	10,313
Total Expenses Before Depreciation and Amortization	18,859,179	1,046,899	19,906,078	2,505,607	1,823,966	4,329,573	24,235,651	21,039,061
Depreciation and Amortization	56,723	28,602	85,325	97,727	10,386	108,113	193,438	158,900
Total Functional Expenses	$ 18,915,902	$ 1,075,501	$ 19,991,403	$ 2,603,334	$ 1,834,352	$ 4,437,686	$ 24,429,089	$ 21,197,961
Percentage of Total	77.4 %	4.4 %	81.8 %	10.7 %	7.5 %	18.2 %	100.0 %	

The Accompanying Notes are an Integral Part of these Financial Statements.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2011

	PROGRAM SERVICES			SUPPORTING SERVICES			
	Direct Services	Training Services	Total	Management and General	Fundraising	Total	TOTAL
EXPENSES:							
Salaries and Wages	$ 10,707,892	$ 235,080	$ 10,942,972	$ 1,341,431	$ 772,333	$ 2,113,764	$ 13,056,736
Employee Benefits	1,611,220	25,062	1,636,282	136,006	82,764	218,770	1,855,052
Payroll Tax	864,254	18,510	882,764	92,384	54,797	147,181	1,029,945
Total Salaries and Related Expenses	13,183,366	278,652	13,462,018	1,569,821	909,894	2,479,715	15,941,733
Other Professional Services, Including In-Kind	1,807,165	79,643	1,886,808	20,518	160,832	181,350	2,068,158
Travel and Related Expenses, Including In-Kind	644,369	49,837	694,206	89,028	64,565	153,593	847,799
Rent, Including In-Kind	431,239	23,551	454,790	140,521	43,962	184,483	639,273
Staff Recruitment and Training	141,072	127,737	268,809	28,572	2,961	31,533	300,342
School Supplies	173,276	230	173,506	1,633	14,366	15,999	189,505
Dues, Licenses, Service Fees	76,692	3,835	80,527	79,665	11,849	91,514	172,041
Legal Fees, Including In-Kind	4,000	-	4,000	67,983	-	67,983	71,983
Telephone	95,707	7,177	102,884	25,844	7,993	33,837	136,721
Printing and Publications	16,966	14,087	31,053	18,792	70,626	89,418	120,471
Small Equipment and Maintenance	27,967	1,154	29,121	16,956	2,161	19,117	48,238
Interest	55,836	1,179	57,015	3,824	2,222	6,046	63,061
Supplies	49,387	11,321	60,708	19,421	21,218	40,639	101,347
Bad Debt	90,772	-	90,772	-	-	-	90,772
Insurance	59,104	1,477	60,581	3,814	2,652	6,466	67,047
Marketing and Advertising, Including In-Kind	9,549	112	9,661	7,734	18,231	25,965	35,626
Postage	19,818	2,434	22,252	20,450	11,432	31,882	54,134
Accounting Fees	-	-	-	50,040	-	50,040	50,040
Utilities	19,042	1,487	20,529	7,326	2,602	9,928	30,457
Government Grant Commission	10,313	-	10,313	-	-	-	10,313
Total Expenses Before Depreciation and Amortization	16,915,640	603,913	17,519,553	2,171,942	1,347,566	3,519,508	21,039,061
Depreciation and Amortization	70,547	11,561	82,108	56,666	20,126	76,792	158,900
Total Functional Expenses	$ 16,986,187	$ 615,474	$ 17,601,661	$ 2,228,608	$ 1,367,692	$ 3,596,300	$ 21,197,961
Percentage of Total	80.1 %	2.9 %	83.0 %	10.5 %	6.5 %	17.0 %	100.0 %

The Accompanying Notes are an Integral Part of these Financial Statements.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	$ 4,828,008	$ (7,437,906)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	193,438	158,900
Loss on Disposal of Equipment	39,888	-
Amortization of Present Value Discount on Multi-Year Grants Receivable	(31,999)	(444,624)
Bad Debt Expense	83,254	90,772
(Increase) Decrease in Assets:		
Accounts Receivable	43,893	(191,192)
Grants Receivable	(3,504,517)	6,832,172
Pledges Receivable	(91,031)	(454)
Prepaid Expenses	(186,449)	(86,427)
Deposits	(11,989)	(14,681)
Increase (Decrease) in Liabilities:		
Accounts Payable	240,889	(64,708)
Accrued Liabilities	186,613	221,313
Deferred Revenue	133,611	98,233
Other Long-Term Liabilities	8,520	21,078
Net Cash Provided (Used) by Operating Activities	1,932,129	(817,524)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(89,078)	(148,395)
Net Cash Used by Investing Activities	(89,078)	(148,395)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Line of Credit Borrowings	10,580,000	7,750,000
Repayments of Line of Credit Borrowings	(11,036,639)	(6,850,000)
Net Cash Provided (Used) by Financing Activities	(456,639)	900,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,386,412	(65,919)
CASH AND CASH EQUIVALENTS, Beginning of Year	867,607	933,526
CASH AND CASH EQUIVALENTS, End of Year	$ 2,254,019	$ 867,607
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid for Interest	$ 90,609	$ 53,275

The Accompanying Notes are an Integral Part of these Financial Statements.

NOTE 1 - ORGANIZATION:

Playworks Education Energized ("Playworks" or the "Organization") is a nonprofit public benefit corporation that transforms schools by providing play and physical activity at recess and throughout the school day. Through on-site direct service and trainer-led professional development workshops, Playworks restores valuable teaching time, reduces bullying, increases physical activity and improves the school and learning environment.

Founded in 1996, the Organization provides direct services exclusively to public elementary schools with at least 50% of student enrollment eligible for free/reduced lunch. Playworks is the only organization in the country to send trained adult program coordinators into low-income schools, where they enhance and transform recess and play into a positive experience that helps children and teachers get the most out of every learning opportunity throughout the school day.

During the year ended June 30, 2012, the Organization served 130,000 children in 300 schools located in 23 cities. Playworks operated full-time, direct service programs in the following cities and market areas in the 2011-12 year: Albuquerque, Baltimore, Boston, Chicago, Denver, Detroit, Durham, Houston, Jackson, Los Angeles, Milwaukee, Oakland/East Bay CA, Newark NJ, New York City, New Orleans, Philadelphia, Phoenix, Portland OR, St. Paul, Salt Lake City, San Francisco, Silicon Valley, and Washington D.C.

In addition to direct service programs, Playworks has developed a comprehensive model of training adults who wish to provide inclusive, healthy play and promote a positive school climate. Playworks Training is a solution that empowers staff to pro-actively manage the chaos at recess, reduce bullying behavior and increase healthy physical activity so students can return to the classroom ready to learn. Playworks trainers work on location with adults in schools and youth organizations. Through customized, high-energy workshops, and with coaching and support, teachers and other professionals learn how to use games, play strategies and group management techniques to teach kids how to play well together, share, resolve conflicts and develop leadership skills.

NOTE 2 - NATIONAL EXPANSION / CHANGE IN NET ASSETS:

In April 2012, Playworks received a three-year grant from May 15, 2012 through June 30, 2015 in the amount of $8,488,328 from the Robert Wood Johnson Foundation (see Note 5) to support ongoing growth. The Organization was required to recognize the entire grant amount of $8,488,328 (less present value discount) as temporarily restricted support in the year ended June 30, 2012.

In June 2008, Playworks received a four-year grant from July 1, 2008 through June 30, 2012 in the amount of $18,734,344 from the Robert Wood Johnson Foundation (see Note 5) to expand school-based play and physical activity to 22 new cities across the United States, to provide technical assistance to 4,000 additional schools and to develop Playworks as a national voice for play. The Organization was required to recognize the entire grant amount of $18,734,344 (less present value discount) as temporarily restricted support in the year ended June 30, 2008.

NOTE 2 - NATIONAL EXPANSION / CHANGE IN NET ASSETS (Continued):

As a result of this required accounting for these grants, there are annual "Net Assets Released from Restrictions" in the Temporarily Restricted column of the statement of activities related to the accounting for these grants. The following table summarizes the activity included in the Temporarily Restricted column for these two grants.

	6/30/08	6/30/09	6/30/10	6/30/11	6/30/12
Foundation Grants	$ 18,734,344	$ -	$ -	$ -	$ 8,488,328
Net Assets Released from Restrictions	-	(3,956,056)	(4,767,138)	(6,701,803)	(4,809,347)
Change in Net Assets	$ 18,734,344	$ (3,956,056)	$ (4,767,138)	$ (6,701,803)	$ 3,678,981

The amount shown in the Total column in the Change in Net Assets on the statement of activities (an amount that is analogous to "net income" or "net loss" in a for-profit income statement) is $4,828,008 and $(7,437,906) for the years ended June 30, 2012 and 2011, respectively, primarily as a result of the required accounting treatment described above.

The four-year grant follows a smaller grant awarded in 2005 which also supported the Organization's expansion. The initial grant enabled Playworks to launch programs in three new cities and to establish its national office to support the expansion.

The Robert Wood Johnson Foundation is the largest philanthropic organization devoted exclusively to improving the health and health care of all Americans.

NOTE 3 - PROGRAM SERVICES:

Direct Services - The Organization addresses the physical, emotional, and cognitive needs of children by coordinating full day play and physical activity programming - during lunchtime, recess, and after school - taught from a framework of youth development. At each school, enthusiastic, well-trained Playworks' Program Coordinators:

- create a safe, active and inclusive environment on the playground by coordinating a variety of schoolyard sports and games during recess and lunch;
- work with individual classes and with classroom teachers to introduce games and physical activity into the school curriculum;
- develop and coordinate before or after school physical activity programs;
- coordinate interscholastic developmental sports leagues such as basketball, volleyball, soccer and others;
- implement a youth leadership program at each site; and
- employ play as a tool for generating more community and family involvement.

NOTE 3 - PROGRAM SERVICES (Continued):

Each Playworks' Program Coordinator works at their school five days a week, throughout the school day and during non-school hours, to lead games and physical activities based on a curriculum that has been tested and refined over a decade of program operations.

Training Services - Built on best practices in youth development, as well as a history of evidence-based success from its direct service program. Playworks Training teaches group management, conflict resolution, games facilitation and other essential skills that transform playgrounds. Playworks Training provides customized staff trainings to schools and school districts, after school programs, summer camps, and other youth service organizations. Training is provided on a fee-for-service basis, customized depending on the number of trainings requested, the number of participants, and the length of each training.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financial statements of Playworks Education Energized have been prepared on the accrual basis of accounting.

Basis of Presentation - The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations. In accordance with accounting principles generally accepted in the United States of America, the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

> Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes.
>
> Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.
>
> Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in restricted net assets. When the restrictions are met (either by passage of time or by use) the amounts are shown as a reclassification of restricted net assets to unrestricted net assets.

Fair Value Measurement - Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization’s assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

> Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
>
> Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
>
> Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization’s best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Accounts Receivable - Accounts receivable represent amounts due from schools and are stated at the amount the Organization expects to collect for contract services. Provision for losses on receivables is made when considered necessary to maintain an adequate allowance to cover bad debts. Receivables are charged against the allowance when the Organization determines that payments will not be received. Any subsequent receipts are credited to the allowance. As of June 30, 2012 and 2011, the Organization had a allowance for doubtful accounts of $74,331 and $75,902, respectively. Bad debt expense for the years ended June 30, 2012 and 2011 amounted to $83,254 and $90,772, respectively.

Grants Receivable - Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as contribution income in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give, if any, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. The Organization considers all unconditional promises to give to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Property and Equipment - Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over $1,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 5 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2012 and 2011, and is included in "accrued liabilities" in the statements of financial position. The accrued vacation balance as of June 30, 2012 and 2011 was $370,894 and $284,451, respectively.

Revenue Recognition - The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and contract service fees are recognized as revenue in the period in which the service is provided.

Deferred Revenue - Deferred revenue represents amounts paid in advance for school site programs and exchange transactions.

Contributions - Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Temporarily restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Contributions In-Kind - Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations.

Expense Allocation - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management's estimate of indirect salary expense allocation is based on individual employee timesheets and/or estimated time spent by function. Management's estimate of other indirect costs are based on salary expense and/or headcount.

Income Taxes - Playworks Education Energized is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and exempt from state income taxes under various state codes. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

Uncertainty in Taxes - Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Organization's federal returns for the years ended June 30, 2011, 2010 and 2009 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Organization’s state returns for the years ended June 30, 2011, 2010, 2009 and 2008 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Marketing and Advertising - The Organization's policy is to expense marketing and advertising costs as the costs are incurred. Marketing and advertising expenses for the years ended June 30, 2012 and 2011 was $61,179 and $35,626, respectively.

Reclassifications - Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent Events - Management of the Organization has evaluated events and transactions subsequent to June 30, 2012 for potential recognition or disclosure in the financial statements. The Organization had no subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2012. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 12, 2012. The Organization has not evaluated subsequent events after November 12, 2012.

NOTE 5 - GRANTS RECEIVABLE:

The Organization received a four-year grant in the amount of $18,734,344 during the year ended June 30, 2008. This grant receivable is reflected at present value using a discount rate of 3.2%. The Organization also received two 3-year grants totaling $3,225,000 during the year ended June 30, 2010. In addition, the Organization received one 3-year grant totaling $250,000 during the year ended June 30, 2011. The Organization received two 3-year grants totaling $11,488,328, and one 2-year corporate grant totaling $1,200,000 during the year ended June 30, 2012. These grants receivable are reflected at present value using discount rates ranging from 1.8% to 5.1%.

	2012	2011
Total Grants Receivable	$ 10,385,086	$ 6,880,570
Present Value Discount	(212,847)	(244,846)
	10,172,239	6,635,724
Less: Current Portion	(4,415,314)	(6,470,224)
Total Grants Receivable, Net of Current Portion	$ 5,756,925	$ 165,500

Future grants receivable payments are as follows:

Year Ending June 30,	Gross	Present Value Discount	Net
2013	$ 4,566,363	$ (151,049)	$ 4,415,314
2014	4,465,081	(54,653)	4,410,428
2015	1,353,642	(7,145)	1,346,497
Total Future Grants Receivable Payments	$ 10,385,086	$ (212,847)	$ 10,172,239

NOTE 6 - PROPERTY AND EQUIPMENT:

The cost and related accumulated depreciation of the property and equipment as of June 30, consisted of the following:

	2012	2011
Furniture and Equipment	$ 243,312	$ 228,761
Tenant Improvements	187,833	136,284
Software Development	133,869	70,172
Website	131,041	131,041
Capitalized Software	30,527	41,631
Capital Lease Equipment	7,120	7,120
Work in Progress - Software	-	98,369
	733,702	713,378
Less: Accumulated Depreciation	(443,413)	(290,137)
Property and Equipment, Net	$ 290,289	$ 423,241

Depreciation expense for the years ended June 30, 2012 and 2011 was $182,144 and $151,400, respectively.

NOTE 7 - LINES OF CREDIT:

The Jenesis Group - The Organization entered into a one-year loan agreement effective as of October 1, 2010 with The Jenesis Group allowing for borrowings up to $2 million to be used for cash flow for operations. The interest rate was at 2.79%. This agreement provided for two additional 12-month extensions subject to the approval of The Jenesis Group prior to expiration of the agreement. The Jenesis Group approved a 12-month extension of the line of credit through October 1, 2012 and the interest rate was adjusted to 2.86%. The Jenesis Group approved the second 12-month extension of the line of credit on October 1, 2012 and the interest rate was adjusted to 3.02%. The line of credit matures on September 30, 2013. As of June 30, 2012 and 2011, the amount outstanding was $0 and $1,650,000, respectively.

One PacificCoast Bank - The Organization entered into a $3,500,000 working capital line of credit on August 11, 2009 with One PacificCoast Bank (formerly OneCalifornia Bank). The line of credit was secured by a certificate of deposit in the name of Robert Wood Johnson Foundation and bore interest at 3.00% per annum. The line of credit which matured on August 11, 2011 was renewed and matured on December 19, 2011. As of June 30, 2012 and 2011 the amount outstanding was $0 and $1,700,000, respectively.

NOTE 7 - LINES OF CREDIT (Continued):

One PacificCoast Bank - The Organization entered into a $2,500,000 loan on March 1, 2012 with One PacificCoast Bank (formerly OneCalifornia Bank). The line of credit is secured by a business checking account of Robert Wood Johnson Foundation. The loan bears interest at 3.00%. The loan matured on September 30, 2012. The loan was amended and restated on September 30, 2012. The principal amount of the note was increased from $2,500,000 to $3,500,000. The maturity date was extended to from September 30, 2012 to September 30, 2013. As of June 30, 2012 and 2011 the amount outstanding was $2,500,000 and $0, respectively.

One PacificCoast Bank - The Organization entered into a $1,000,000 loan on March 1, 2012 with One PacificCoast Bank (formerly OneCalifornia Bank). The line of credit is secured by the Organization's machinery, equipment, furniture and accounts. The loan bears interest at 3.00% plus index. As of June 30, 2012 the interest rate was 6.25%. The loan matured on September 30, 2012. The loan was amended and restated on September 30, 2012. The principal amount of the loan was increased from $1,000,000 to $1,200,000. The maturity date was extended from September 30, 2012 to September 30, 2013. As of June 30, 2012 and 2011 the amount outstanding was $400,000 and $0, respectively.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS:

The Organization's temporarily restricted net assets as of June 30, consisted of the following:

	2012	2011
National Expansion	$ 8,826,753	$ 4,225,263
California Programs	535,000	10,000
Massachusetts Programs	349,331	139,239
Michigan Program	116,667	-
Colorado Programs	99,397	210,000
Minnesota Programs	36,000	-
Maryland Programs	30,000	50,000
Salt Lake City Program	25,000	-
Washington D.C. Programs	-	45,000
New Jersey / New York Programs	-	15,000
Total Temporarily Restricted Net Assets	$ 10,018,148	$ 4,694,502

NOTE 9 - CONTRIBUTIONS IN-KIND:

The estimated fair value of donated office space, gym rental space, supplies and expert services are recorded as contributions. During the years ended June 30, the following in-kind contributions were received by the Organization:

	2012	2011
Consulting Services	$ 981,974	$ 1,686,992
Legal Services	135,761	63,983
Office Space	79,969	77,551
Miscellaneous	42,818	11,345
Marketing	-	15,000
Total Contributions In-Kind	$ 1,240,522	$ 1,854,871

NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

	2012	2011
National Expansion	$ 8,102,400	$ 8,075,500
California Programs	922,071	533,086
Massachusetts Programs	461,915	334,000
Maryland Programs	215,862	155,000
Michigan Program	211,178	-
Colorado Programs	192,266	83,500
New Jersey / New York Programs	159,680	125,000
Washington D.C. Programs	133,875	62,500
New Mexico Program	79,688	-
Salt Lake City Program	66,661	-
Minnesota Programs	53,703	15,000
Oregon Programs	53,064	53,000
Mississippi Program	50,085	-
Pennsylvania Programs	47,107	25,000
Texas Programs	24,606	4,965
North Carolina Program	12,670	-
Wisconsin Program	11,697	-
Arizona Program	4,186	-
New Orleans Programs	1,665	-
Chicago Program	1,370	-
Total Net Assets Released from Restrictions	$ 10,805,749	$ 9,466,551

NOTE 11 - CONFLICT OF INTEREST POLICY:

Included among the Organization's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the Organization in the development of policies and programs and in the evaluation of business transactions. The Organization has adopted a conflict of interest policy whereby Board members are disqualified from participation in the final decisions regarding any action affecting their related company or agency.

NOTE 12 - CONTINGENCIES:

Grants and contracts awarded to Playworks Education Energized are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred in connection with the grants do not comply with the established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to a reduction of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period. The Organization would be responsible for the absorption of any over-expenditure of its restricted grants which cannot be covered by additional grant funds or contributions from other sources.

NOTE 13 - CONCENTRATIONS:

The Organization has one grantor that comprised 64% and 63% of grants receivable as of June 30, 2012 and 2011, respectively.

NOTE 14 - OPERATING LEASE COMMITMENTS:

The Organization leases office space in Oakland (two locations), San Francisco, Washington D.C., Baltimore, New Orleans, Los Angeles, Newark, Portland, Phoenix, Salt Lake City, Campbell, Albuquerque, Jamaica Plain (MA), Houston, Jackson, Chicago, St. Paul, Denver, Detroit, Philadelphia, New York and Durham. The office space leases expire at various periods through September 30, 2016 and three are on a month-to-month basis. The Organization also leases office equipment. The office equipment leases expire at various periods through September 10, 2014. Rental expense, including in-kind, for the years ended June 30, 2012 and 2011 was $816,641 and $639,273, respectively.

NOTE 14 - OPERATING LEASE COMMITMENTS (Continued):

Future minimum lease payments are as follows:

Year Ending June 30,	Amount
2013	$ 654,565
2014	505,668
2015	247,886
2016	51,858
2017	2,600
Total Future Minimum Lease Payments	$ 1,462,577

NOTE 15 - RELATED PARTY TRANSACTIONS:

A board member is a principal at a company that owns the building in which the Organization rents office space in downtown Oakland, California at 380 Washington Street. The term of the lease is five years ending on December 31, 2014. The office space is approximately 9,395 square feet. The monthly rent is $13,125 with annual increases on July 1, 2010, 2011, 2012 and 2013 of 10%, 10%, 6% and 6%, respectively.

The same board member also owns the building in which the Organization rents office space in downtown San Francisco, California at 650 Fifth Street, Suite 204. The term of the lease is on a month-to-month basis. The office space is approximately 720 square feet. The monthly rent is $250 commencing on October 1, 2009, increases to $400 on July 1, 2010 and increases to $600 on July 1, 2011. On May 3, 2011 the lease was amended to include Suites 201 and 203 (approximately 1,444 square feet) and exclude Suite 204. The monthly rent was increased to $1,500 on July 1, 2011.

A board member is a program officer for The Jenesis Group. The Organization was awarded a $3 million grant from The Jenesis Group during the year ended June 30, 2010, of which $1 million is included in Net Assets Released from Restrictions in the statement of activities for the year ended June 30, 2011. Grants receivable as of June 30, 2011 included $1,500,000 from The Jenesis Group payable in three installments of $500,000 in July 2011, December 2011 and June 2012. Grants receivable as of June 30, 2012 from The Jenesis Group was $0.

The Organization has a line of credit with The Jenesis Group, see Note 7.

NOTE 16 - RETIREMENT PLANS:

401(k) Plan - Effective January 1, 2010 the Organization sponsors a defined contribution plan under Internal Revenue Code Section 401(k) (the Plan). Under the provisions of the Plan, participating employees may make voluntary contributions through salary deductions up to the maximum amount allowed by law. The Organization is authorized under the Plan to make employer contributions on behalf of its eligible employees. Employer contributions will be contributed to the employer contribution account under the Plan at such time the Organization deems appropriate. Employer contributions may be contributed during the Plan year or after the Plan year ends. During the years ended June 30, 2012 and 2011, no matching contributions were made by the Organization.

NOTE 17 - UNRESTRICTED NET ASSETS / CONTINUING OPERATIONS:

The Organization has historically had restricted net assets as of June 30 with release provisions for the following fiscal year ranging between $4.0 to $6.0 million, and unrestricted net assets of less than $1.0 million. The unrestricted deficit as of June 30, 2012 was temporarily funded by unsecured lines of credit and is expected to be permanently funded by budgeted unrestricted income for the year ending June 30, 2013. The following table summarizes historical Net Assets:

	6/30/12	6/30/11	6/30/10	6/30/09	6/30/08
Unrestricted Net Assets	$ (411,682)	$ 83,956	$ 452,886	$ 420,449	$ 679,225
Restricted Net Assets	10,018,148	4,694,502	11,763,478	14,444,595	18,194,185
Total Net Assets	$ 9,606,466	$ 4,778,458	$12,216,364	$14,865,044	$18,873,410

In May 2012, Playworks launched a Growth Capital Campaign to raise $26.4 million to fund ongoing operations and to build net assets for future years. A total of $11.5 million was raised in May 2012, including $8.5 million from the Robert Wood Johnson Foundation (see Note 2).

SECTION II

SUPPLEMENTARY INFORMATION

PLAYWORKS
EDUCATION ENERGIZED
(A Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Government Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Grant Period/ Period In Current Fiscal Year	Revenue Recognized	Federal Expenditures
Corporation for National and Community Service:					
AmeriCorps	94.006	10NDHCA004	8/1/10 - 7/31/13	$ 929,688	$ 929,688
Passed Through:					
State of California					
AmeriCorps	94.006	09ACHY18C110	7/1/11 - 12/31/12	738,323	738,323
District of Columbia					
AmeriCorps	94.006	07AFHDC0010014	8/1/11 - 7/31/12	168,528	168,528
AmeriCorps	94.006	07AFHDC0010014	8/1/10 - 7/31/11	5,409	5,409
State of Pennsylvania					
AmeriCorps	94.006	06AFHPA0010025	8/20/11 - 12/31/12	95,195	95,195
State of Louisiana					
AmeriCorps	94.006	06AFHLA0010021	8/1/10 - 11/30/11	2,076	2,076
State of New Mexico					
AmeriCorps	94.006	06AFHNM0010041	10/13/11 - 8/14/12	106,526	106,526
State of Mississippi					
AmeriCorps	94.006	06AFHMS0010016	8/5/11 - 8/4/12	87,301	87,301
Total Corporation for National and Community Service				2,133,046	2,133,046
TOTAL FEDERAL ASSISTANCE				$ 2,133,046	$ 2,133,046

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Playworks Education Energized under programs of the federal government for the year ended June 30, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Playworks Education Energized, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Playworks Education Energized.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

SECTION III

REPORTS

Thomas C. Bondi
Lawrence S. Kuechler
Roberto M. Maragoni
Frank A. Minuti, Jr.

EMERITUS
Alexander W. Berger (1916-2005)
Griffith R. Lewis

BERGER LEWIS
ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Daniel C. Moors
Randy G. Peterson
Todd W. Robinson
David R. Sheets
Robert W. Smiley

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Playworks Education Energized
(A Nonprofit Public Benefit Corporation)
Oakland, California

We have audited the financial statements of Playworks Education Energized (a nonprofit public benefit corporation) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Playworks Education Energized is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Playworks Education Energized's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness Playworks Education Energized's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Playworks Education Energized's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2012-1.

We noted certain other matters that we reported to management of Playworks Education Energized in a separate letter dated November 12, 2012.

Playworks Education Energized’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Playworks Education Energized’s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, the board of directors, others within the Organization, and federal and other governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
November 12, 2012

Thomas C. Bondi
Lawrence S. Kuechler
Roberto M. Maragoni
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EMERITUS
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Playworks Education Energized
(A Nonprofit Public Benefit Corporation)
Oakland, California

Compliance

We have audited Playworks Education Energized's (a nonprofit public benefit corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Playworks Education Energized's major federal programs for the year ended June 30, 2012. Playworks Education Energized's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Playworks Education Energized's management. Our responsibility is to express an opinion on Playworks Education Energized's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Playworks Education Energized's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Playworks Education Energized's compliance with those requirements.

In our opinion, Playworks Education Energized complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-1.

55 ALMADEN BLVD. SUITE 600 SAN JOSE, CA 95113-1605 (408) 494-1200 (P) (408) 279-8186 (F)

Internal Control Over Compliance

Management of Playworks Education Energized is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Playworks Education Energized's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Playworks Education Energized's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Playworks Education Energized's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Playworks Education Energized's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the audit committee, the board of directors, others within the Organization, and federal and other governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
November 12, 2012

SECTION IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of Playworks Education Energized.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Playworks Education Energized, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Playworks Education Energized expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program included: Corporation for National and Community Service - AmeriCorps - CFDA 94.006.
8. The threshold used for distinguishing between Type A and B programs was $300,000.
9. Playworks Education Energized was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT:

None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:

Item 2012-1 - AmeriCorps: Living Allowances

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
Name of Program - AmeriCorps
CFDA No. - 94.006
Grant Period 7/1/11 - 6/30/12

Condition

During our audit, we noted that some AmeriCorps members were paid living allowances that exceeded the maximum allowance. Specifically, we noted that an overpayment of $368 each for 24 AmeriCorps members (total $8,832) occurred due to a transposition error in the entry of their final stipend amounts into the payroll system. The final stipend was being modified from previous semi-monthly stipends by $0.02 in order to pay the member the designated annual stipend amount.

Criteria

An effective internal control includes adequate procedures to ensure that Playworks Education Energized complies with 45 CFR § 2522.24 that states that AmeriCorps members be paid amounts less than or equal to the maximum amount that the program allows.

Effect

Playworks Education Energized was not in compliance with 45 CFR § 2522.240 which states that living allowances paid to the AmeriCorps members should not exceed the maximum allowance.

Cause

A transposition error in the entry of the AmeriCorps members final stipend amounts into the payroll system resulted in overpayment of living allowances.

Context

AmeriCorps members were paid living allowances that exceeded the maximum allowance.

Recommendation

We recommend that the Organization comply with 45 CFR § 2522.24 that states that living allowances paid to the AmeriCorps members should not exceed the maximum allowance.

Management's Response

Playworks' most recent audit was completed in November 2012 for the year ended June 30, 2012. The independent audit firm, Berger Lewis Accountancy Corporation, issued an unqualified opinion and found the financial statements to be prepared in accordance with GAAP. In the federal awards portion of the audit, our auditors issued an opinion that Playworks complied in all material respects with the compliance requirements of OMB Circular A-133 and for all major federal programs. The auditors noted a finding as 24 AmeriCorps members were overpaid by $368 each (total $8,832) due to a data entry error in the final paycheck intended to add $0.02 and instead added $368.02. Playworks has modified its procedures to not adjust final living allowance payments for rounding differences resulting from dividing the annual living allowance by the number of payperiods.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2012

NONE