Reports of Independent Auditors and
Financial Statements with
Federal Awards Supplementary Information

Playworks Education Energized

June 30, 2018 and 2017

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Table of Contents

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Report of Independent Auditors

The Board of Directors
Playworks Education Energized

Report on the Financial Statements

We have audited the accompanying financial statements of Playworks Education Energized ("Playworks") which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Playworks Education Energized as of June 30, 2018 and **2017**, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018, on our consideration of Playworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of Playworks' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Playworks' internal control over financial reporting and compliance.

Moss Adams LLP

San Francisco, California
October 12, 2018

Financial Statements

Playworks Education Energized
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,432,028	$ 3,542,512
Accounts receivable, net of allowance for doubtful accounts of $143,973 and $143,973 in 2018 and 2017, respectively	2,900,265	2,412,803
Grants and pledges receivable	3,583,888	10,447,723
Prepaid expenses and other assets	441,705	414,907
Total current assets	9,357,886	16,817,945
Property and equipment, net	469,602	242,910
Grants and pledges receivable, net of discount and current portion	2,116,504	3,931,982
Other long-term assets	76,798	63,004
TOTAL ASSETS	$ 12,020,790	$ 21,055,841
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 982,255	$ 777,332
Payroll and accrued benefits	2,107,827	2,140,573
Deferred revenue	537,278	1,018,228
Total current liabilities	3,627,360	3,936,133
Deferred rent liability	37,784	41,377
Total liabilities	3,665,144	3,977,510
NET ASSETS		
Unrestricted	112,723	1,403,989
Temporarily restricted	8,242,923	15,674,342
Total net assets	8,355,646	17,078,331
TOTAL LIABILITIES AND NET ASSETS	$ 12,020,790	$ 21,055,841

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT						
Contributions	$ 1,372,261	$ 7,806,553	$ 9,178,814	$ 865,863	$ 9,376,070	$ 10,241,933
Corporate support	1,583,370	2,692,775	4,276,145	1,301,998	2,871,425	4,173,423
Contributions in-kind	522,460	-	522,460	461,508	-	461,508
Net assets released from restriction	17,930,747	(17,930,747)	-	17,681,496	(17,681,496)	-
Total support	21,408,838	(7,431,419)	13,977,419	20,310,865	(5,434,001)	14,876,864
REVENUE						
Direct service fees	14,289,244	-	14,289,244	13,566,915	-	13,566,915
Government grants	3,352,898	-	3,352,898	3,536,918	-	3,536,918
Training fees	3,079,906	-	3,079,906	2,301,669	-	2,301,669
Special events (net of direct expenses of $685,151 and $906,891 in 2018 and 2017, respectively)	1,365,464	-	1,365,464	914,779	-	914,779
Other revenue	191,234	-	191,234	431,644	-	431,644
Total revenue	22,278,746	-	22,278,746	20,751,925	-	20,751,925
Total support and revenue	43,687,584	(7,431,419)	36,256,165	41,062,790	(5,434,001)	35,628,789
EXPENSES						
Program services:						
Direct services	30,602,834	-	30,602,834	30,491,911	-	30,491,911
Training services	4,657,885	-	4,657,885	4,089,922	-	4,089,922
Total program services	35,260,719	-	35,260,719	34,581,833	-	34,581,833
Support services:						
Management and general	5,647,403	-	5,647,403	4,671,731	-	4,671,731
Fundraising	4,070,728	-	4,070,728	3,484,977	-	3,484,977
Total support services	9,718,131	-	9,718,131	8,156,708	-	8,156,708
Total expenses	44,978,850	-	44,978,850	42,738,541	-	42,738,541
CHANGE IN NET ASSETS	(1,291,266)	(7,431,419)	(8,722,685)	(1,675,751)	(5,434,001)	(7,109,752)
NET ASSETS, beginning of year	1,403,989	15,674,342	17,078,331	3,079,740	21,108,343	24,188,083
NET ASSETS, end of year	$ 112,723	$ 8,242,923	$ 8,355,646	$ 1,403,989	$ 15,674,342	$ 17,078,331

See accompanying notes.

Playworks Education Energized
Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services			Supporting Services			
	Direct Services	Training Services	Subtotal	Management and General	Fundraising	Subtotal	Total
EXPENSES							
Salaries and wages	$ 20,844,255	$ 3,111,260	$ 23,955,515	$ 3,641,343	$ 2,345,028	$ 5,986,371	$ 29,941,886
Employee benefits	2,581,804	385,366	2,967,170	451,023	290,459	741,482	3,708,652
Payroll tax	1,540,045	229,870	1,769,915	269,035	173,259	442,294	2,212,209
Total salaries and related expenses	24,966,104	3,726,496	28,692,600	4,361,401	2,808,746	7,170,147	35,862,747
Travel and related expenses	702,040	104,788	806,828	122,641	78,980	201,621	1,008,449
Rent and occupancy, including in-kind	867,896	129,544	997,440	151,615	97,640	249,255	1,246,695
Legal and professional, including in-kind	2,162,514	322,782	2,485,296	696,283	243,288	939,571	3,424,867
Dues, licenses, service fees	401,401	59,914	461,315	70,122	45,159	115,281	576,596
Staff recruitment and training	190,603	28,450	219,053	33,297	21,443	54,740	273,793
Interest	16,774	2,504	19,278	2,930	1,887	4,817	24,095
Telephone	158,690	23,686	182,376	27,722	17,853	45,575	227,951
School supplies	197,351	120,009	317,360	21,680	13,962	35,642	353,002
Printing and publications	103,213	15,406	118,619	18,031	11,612	29,643	148,262
Insurance	121,684	18,163	139,847	21,257	13,690	34,947	174,794
Marketing and advertising	104,603	15,613	120,216	18,273	11,768	30,041	150,257
Meetings and conferences	278,971	41,640	320,611	48,734	31,385	80,119	400,730
Fundraising events, including in-kind	-	-	-	-	638,914	638,914	638,914
Small equipment and maintenance	104,429	15,587	120,016	18,243	11,749	29,992	150,008
Supplies	61,982	9,252	71,234	10,828	6,973	17,801	89,035
Postage	64,855	9,680	74,535	11,330	7,296	18,626	93,161
Utilities	23,384	3,490	26,874	4,085	2,631	6,716	33,590
Government grant commission	25,216	-	25,216	-	-	-	25,216
Bad debt expense	-	3,250	3,250	-	-	-	3,250
Total expenses before depreciation and amortization	30,551,710	4,650,254	35,201,964	5,638,472	4,064,976	9,703,448	44,905,412
Depreciation and amortization	51,124	7,631	58,755	8,931	5,752	14,683	73,438
Total functional expenses	$ 30,602,834	$ 4,657,885	$ 35,260,719	$ 5,647,403	$ 4,070,728	$ 9,718,131	$ 44,978,850

Playworks Education Energized
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services			Supporting Services			
	Direct Services	Training Services	Subtotal	Management and General	Fundraising	Subtotal	Total
EXPENSES							
Salaries and wages	$ 20,210,050	$ 2,710,802	$ 22,920,852	$ 3,096,424	$ 2,309,843	$ 5,406,267	$ 28,327,119
Employee benefits	2,721,839	365,084	3,086,923	417,019	311,084	728,103	3,815,026
Payroll tax	1,493,262	200,293	1,693,555	228,786	170,668	399,454	2,093,009
Total salaries and related expenses	24,425,151	3,276,179	27,701,330	3,742,229	2,791,595	6,533,824	34,235,154
Travel and related expenses	709,373	95,149	804,522	108,685	81,076	189,761	994,283
Rent and occupancy, including in-kind	957,692	128,457	1,086,149	146,730	109,456	256,186	1,342,335
Legal and professional, including in-kind	1,730,848	232,161	1,963,009	265,187	197,822	463,009	2,426,018
Dues, licenses, service fees	442,480	59,350	501,830	67,793	50,572	118,365	620,195
Staff recruitment and training	146,820	19,693	166,513	22,495	16,780	39,275	205,788
Telephone	133,254	17,874	151,128	20,416	15,230	35,646	186,774
School supplies	233,186	31,278	264,464	35,727	26,651	62,378	326,842
Printing and publications	125,221	16,796	142,017	19,185	14,312	33,497	175,514
Insurance	128,777	17,273	146,050	19,730	14,718	34,448	180,498
Marketing and advertising	393,639	52,799	446,438	60,310	44,990	105,300	551,738
Meetings and conferences	322,348	43,237	365,585	49,388	36,842	86,230	451,815
Fundraising events, including in-kind	261,315	35,051	296,366	40,037	29,866	69,903	366,269
Small equipment and maintenance	154,471	20,719	175,190	23,667	17,655	41,322	216,512
Supplies	74,248	9,959	84,207	11,376	8,486	19,862	104,069
Postage	69,548	9,329	78,877	10,656	7,949	18,605	97,482
Utilities	21,361	2,865	24,226	3,273	2,441	5,714	29,940
Government grant commission	19,327	2,592	21,919	2,961	2,209	5,170	27,089
Bad debt expense	62,849	8,430	71,279	9,629	7,183	16,812	88,091
Total expenses before depreciation and amortization	30,411,908	4,079,191	34,491,099	4,659,474	3,475,833	8,135,307	42,626,406
Depreciation and amortization	80,003	10,731	90,734	12,257	9,144	21,401	112,135
Total functional expenses	$ 30,491,911	$ 4,089,922	$ 34,581,833	$ 4,671,731	$ 3,484,977	$ 8,156,708	$ 42,738,541

Playworks Education Energized
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (8,722,685)	$ (7,109,752)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	73,438	112,135
Allowance for bad debt	-	88,091
Discount on pledges receivable	(29,522)	(145,462)
Changes in assets and liabilities:		
Accounts receivable	(487,462)	(644,036)
Grants and pledges receivable	8,708,835	5,147,172
Prepaid expenses and other assets	(40,592)	325,351
Accounts payable and accrued expenses	204,923	346,510
Payroll and employee benefits	(32,746)	419,205
Deferred revenue	(480,950)	829,447
Other long-term liabilities	(3,593)	11,924
Net cash used by operating activities	(810,354)	(619,415)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(300,130)	(263,126)
Net cash used by investing activities	(300,130)	(263,126)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,110,484)	(882,541)
CASH AND CASH EQUIVALENTS, beginning of year	3,542,512	4,425,053
CASH AND CASH EQUIVALENTS, end of year	$ 2,432,028	$ 3,542,512
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Cash paid for interest	$ 24,095	$ -

See accompanying notes.

NOTE 1 – ORGANIZATION

General – Playworks Education Energized ("Playworks") is a nonprofit public benefit corporation founded in 1996 that changes school culture by leveraging the power of safe, fun, and healthy play at school every day. Playworks creates a place for every kid on the playground to feel included, be active, and build valuable social and emotional skills. Playworks partners with schools, districts, and after-school programs to provide a service or mix of services including on-site coaches, professional training for school staff who support recess, and consultative partnerships.

Playworks operates full-time, direct service programs in the following regions: Arizona, Colorado, Georgia, Illinois, Indiana, Louisiana, Maryland, New England, Michigan, Minnesota, New Jersey, New York, North Carolina, Northern California (East Bay, San Francisco, and Silicon Valley), Pacific Northwest, Pennsylvania, Southern California, Texas, Utah, Washington D.C., and Wisconsin.

Playworks is primarily funded by direct service fees, contributions, and government contracts.

Playworks partners with elementary schools in one of three-ways: providing a full-time coach on site during recess and throughout the school day through Playworks Coach, partnering with elementary schools by providing an on-site coordinator to teach, model, and empower a sustainable recess program; and by delivering Playworks Pro professional training services to school, district, and youth organization staff. Whether Playworks is engaging with an individual school, district, or outside-of-school program, the approach begins with an assessment of needs as well as resources in order to provide the right mix of Playworks services and offerings.

Playworks Services:

Playworks Coach – Playworks addresses the physical, emotional, and cognitive needs of children by coordinating full-day play and physical activity programming during lunchtime, recess, and after school. At each school Playworks coaches:

- 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 activities into 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.

Each Playworks coach 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.

Playworks partners with elementary schools by providing an on-site coordinator to teach, model, and empower a sustainable recess program.

Playworks Pro – Playworks Pro provides customized trainings to employees at schools and school districts, after school programs, summer camps, and other youth service organizations. Playworks Pro teaches group management, conflict resolution, games facilitation, and other essential skills that transform playgrounds. Playworks Pro 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.

Playworks TeamUp – A fusion of Playworks Coach and Playworks Pro, Playworks TeamUp provides a single site coordinator to four partner schools. The site coordinator spends one week each month at each school leading, supporting, and empowering the recess team—including a lead recess coach—to create a safe, inclusive playground for all students.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and description of net assets – The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Playworks reports information regarding its financial position and activities according to the class of net assets:

Unrestricted Net Assets – The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations. The Board of Directors designated $112,723 and $1,403,989, as of June 30, 2018 and 2017, respectively, for Playworks' future working capital needs (see Note 14).

Temporarily Restricted Net Assets – The portion of net assets whose use by Playworks is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Playworks.

Permanently Restricted Net Assets – The portion of net assets whose use by Playworks is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Playworks. As of June 30, 2018 and 2017, Playworks does not have any permanently restricted net assets.

Cash and cash equivalents – Cash and cash equivalents include money market accounts with a maturity of three months or less, and include donor restricted receipts and amounts designated for long-term purposes.

Accounts receivable – Accounts receivable represent amounts due from schools and other youth development organizations and are stated at the amount Playworks expects to collect for contract services. Provisions for losses on receivables are made when considered necessary to maintain an adequate allowance to cover bad debts. Receivables are charged against the allowance when Playworks determines that payments will not be received. Any subsequent receipts are credited to the allowance. As of June 30, 2018 and 2017, Playworks had an allowance for doubtful accounts of $143,973. Bad debt expense for the years ended June 30, 2018 and 2017, amounted to $3,250 and $88,091, respectively.

Property and equipment – Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over $3,000 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 three to five years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Playworks periodically evaluates the carrying values of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No impairment was recognized for the years ended June 30, 2018 and 2017.

Revenue recognition – Contributions and grants are recognized at their fair value when the donor/grantor makes an unconditional promise to give to Playworks. Conditional promises to give, if any, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Restricted contributions and grants are reported as increases in temporarily restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Long-term receivables are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using market rates applicable in the years in which those promises are received. Playworks considers all unconditional promises to give to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Government grants and revenue are recognized when Playworks incurs expenditures related to the required services. Amounts billed and received in advance are recorded as deferred revenue until the related services are performed.

Direct service fees, which are generated from contracts with school districts, and program fees are recognized at the time the service is performed. Deferred revenue represents amounts paid in advance for school site programs and exchange transactions.

Contributions in-kind – Donated equipment, donated office space, 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 Playworks would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. Playworks also receives donated services that do not require specific expertise but which are nonetheless central to Playworks' operations. These services are not recorded in the financial statements.

Functional expense allocation – The costs of providing the various programs and other activities have been summarized on the 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 and other expenses is allocated based on estimated time spent or type of activity by function.

Income taxes – Playworks 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. Playworks is, however, subject to federal and state income tax on unrelated business income and no provision for any such taxes is included in the accompanying financial statements. In addition, Playworks 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.

Playworks follows the guidelines of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, for accounting for uncertainty in income taxes. As of June 30, 2018 and 2017, management evaluated Playworks' tax positions and concluded that Playworks had maintained its tax exempt status and has taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

Marketing and advertising – Playworks' policy is to expense marketing and advertising costs as the costs are incurred. Marketing and advertising expenses for the years ended June 30, 2018 and 2017, were $150,257 and $551,738, respectively.

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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification – Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

New accounting pronouncements – In May 2014, the FASB issued Accounting Standards Updates ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the entity satisfied a performance obligation. In August 2015, the FASB issued ASU No. 2015-14, *Deferral of the Effective Date* ("ASU 2015-14"), which deferred the effective date of ASU 2014-09 for all entities by one year. In March 2016, the FASB issued ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* ("ASU 2016-08"), which clarifies the implementation guidance on principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, *Identifying Performance Obligations and Licensing* ("ASU 2016-10"), which clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance in ASU 2014-09, while retaining the related principles for those areas. In May 2016, the FASB issued ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients* ("ASU 2016-12"), which provides narrow-scope improvements and practical expedients to ASU 2014-09. ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12 are effective for Playworks beginning July 1, 2018. Management is currently evaluating the impact of the provisions of ASU 2014-09, ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12 on Playworks' financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The adoption of ASU 2016-02 is effective for Playworks beginning July 1, 2019. Management is currently evaluating the impact of the provisions of ASU 2016-01 on Playworks' financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit-Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit-Entities* ("ASU 2016-04"), to improve the current net asset classification requirements and the information presented in financial statements and notes about not-for-profit-entities liquidity, financial performance, and cash flows. The adoption of ASU 2016-14 is effective for Playworks beginning July 1, 2018. Management is currently evaluating the impact of the provisions of ASU 2016-14 on Playworks' financial statements.

In August 2018, the FASB has issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-02"), that clarifies and improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations (NFPs) and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The adoption of ASU 2016-02 is effective for Playworks beginning July 1, 2019. Management is currently evaluating the impact of the provisions of ASU 2018-08 on Playworks' financial statements.

NOTE 3 – GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable consist of the following at June 30:

	2018	2017
Foundation grants	$ 3,612,172	$ 13,681,262
Individuals	447,443	50,016
Corporate grants	999,490	53,750
Government contracts	641,287	594,677
Total	$ 5,700,392	$ 14,379,705

Gross contributions receivable as of June 30, 2018, are expected to be received as follows: $3,583,888 within one year and $2,190,000 within two to five years. Net contributions receivable as of June 30, 2018 within two to five years is $2,116,504, which is net of $73,496 in discount for present value. Gross contributions receivable as of June 30, 2017, are expected to be received as follows: $10,447,723 within one year and $4,035,000 within two to five years. Net contributions receivable as of June 30, 2017 within two to five years is $3,931,982, which is net of $103,018 in discount for present value. Discount rates used for present value was 2.6%-3.5%.

Beginning in January 2016, Playworks secured six foundation grants totaling $26,820,000 to support the strategic plan to scale Playworks services in order to reach the organization's aim of ensuring that 3.5 million children in 7,000 elementary schools will experience safe and healthy play every day by December 2020.

To achieve this goal, Playworks plans to expand existing services, develop new services, and build organizational capacity to engage school districts and other youth development organizations in multi-year partnerships that result in their ownership of the Playworks innovation. Therefore, Playworks is investing in and building the infrastructure to support the scaling plan that will ensure our capacity to reach even more children in the long term.

Of the $26,820,000 in grants awarded, $2,360,000 and $1,590,000 (less present value discount) was recognized as revenue in the years ended June 30, 2018 and 2017, respectively. Of the $3,000,000 in grants conditional upon milestones at year ended June 30, 2017, one conditional grant of $500,000 was amended to be a matching grant, of which $360,000 was earned and recognized. The remaining $500,000 is conditional upon milestones (as described above). No new conditional grants were received during the year ended June 30, 2018.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment costs consist of the following at June 30:

	2018	2017
Website design	$ 244,006	$ 352,423
Furniture and equipment	591,878	560,662
Tenant improvements	154,284	154,284
Software	268,003	268,003
Construction in progress	248,848	81,200
	1,507,019	1,416,572
Less: Accumulated depreciation and amortization	(1,037,417)	(1,173,662)
Total property and equipment	$ 469,602	$ 242,910

Depreciation and amortization expense for the years ended June 30, 2018 and 2017, was $73,438 and $112,135, respectively.

NOTE 5 – LINES OF CREDIT

In fiscal year 2016, Playworks entered into a one-year line of credit agreement with The Jenesis Group allowing for borrowings up to $2,000,000 with an interest rate at 3.02% to be used for cash flow for operations. On December 12, 2016, The Jenesis Group approved a new 12-month line of credit agreement through December 31, 2017, which bears an interest rate of 3.64%. The line of credit was not renewed at expiration on December 31, 2017.

Playworks entered into a $3,000,000 line of credit on March 1, 2012, with Beneficial State Bank. The line of credit is secured by Playworks' equipment, furniture, and accounts receivable. The loan bears interest at 6.50%. On January 3, 2018, Playworks extended the maturity date of the line of credit with Beneficial State Bank to January 29, 2019. As of June 30, 2018 and 2017, there was no outstanding amount due.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, consisted of the following:

	2018	2017
National expansion	$ 5,752,224	$ 12,606,157
Arizona	45,000	60,000
California - Northern	75,000	209,705
California - Southern	-	-
Colorado	36,500	140,000
Georgia	135,000	30,000
Illinois	5,000	-
Indiana	-	2,500
Maryland	12,500	60,300
New England	408,000	255,000
Michigan	247,849	257,000
Minnesota	50,000	34,000
Louisiana	-	1,500
North Carolina	-	20,000
New York / New Jersey	15,000	25,000
Pacific Northwest	-	-
Pennsylvania	127,000	159,180
Texas	37,500	-
Utah	1,200,000	1,600,000
Washington, D.C.	13,000	10,000
Wisconsin	83,350	204,000
Total	$ 8,242,923	$ 15,674,342

NOTE 7 – 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:

	2018	2017
National expansion	$ 11,763,955	$ 11,393,268
Arizona	241,000	214,000
California - Northern	1,130,580	1,156,045
California - Southern	383,400	300,982
Colorado	289,250	334,925
Georgia	239,000	247,000
Illinois	160,250	140,000
Indiana	16,500	67,500
Maryland	241,500	368,500
New England	838,000	821,000
Michigan	423,732	428,000
Minnesota	144,000	142,500
Louisiana	66,500	207,330
North Carolina	199,500	124,000
New York / New Jersey	45,000	92,500
Pacific Northwest	395,250	342,000
Pennsylvania	288,680	209,696
Texas	56,500	133,250
Utah	659,500	632,000
Washington, D.C.	120,000	147,500
Wisconsin	228,650	179,500
Total	$ 17,930,747	$ 17,681,496

NOTE 8 – CONTRIBUTIONS IN-KIND

The estimated fair value of donated space and expert services are recorded as contributions. The following in-kind contributions were received by Playworks during the years ended June 30:

	2018	2017
Legal and accounting services	$ 195,803	$ 81,312
Office space	124,909	172,484
Auction items	54,521	57,814
Other	147,227	149,898
Total	$ 522,460	$ 461,508

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Operating leases – Playworks entered into several lease agreements for its headquarters and regional offices; in addition, Playworks also maintains lease agreements for office equipment.

Future aggregate lease payments are as follows:

Year Ending June 30,		
2019	$	1,453,660
2020		954,358
2021		826,905
2022		711,896
2023		699,646
Thereafter		3,756,506
Total future minimum lease payments	$	8,402,971

Rent expense for the years ended June 30, 2018 and 2017, was $1,064,673 and $1,107,688, respectively, and includes $124,909 and $172,484 of donated office space in Oakland, San Francisco, and Wisconsin for the years ended June 30, 2018 and 2017, respectively. Total rent and occupancy expense for the years ended June 30, 2018 and 2017, was $1,246,695 and $1,342,335, respectively.

Contingencies – Grants and contracts awarded to Playworks 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, Playworks 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. Playworks 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 10 – CONCENTRATIONS OF RISK

Playworks has defined its financial instruments which are potentially subject to credit risk. The financial instruments consist principally of cash and receivables.

Periodically, throughout the year, Playworks has maintained balances in various operating and money market accounts in excess of federally insured limits.

Grants and pledges receivable consist primarily of unsecured amounts due from individuals, corporations, foundations, and government agencies. As of June 30, 2018, approximately 68% of grants and pledges receivable were from three organizations and 12% of total support and revenue was from one organization. As of June 30, 2017, approximately 70% of grants and pledges receivable and 6% of total support and revenue were from two organizations.

NOTE 11 – RELATED PARTY TRANSACTIONS

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

A member of the Board of Directors is a principal at a company that owns the building in which Playworks rents office space in downtown Oakland, California. The term of the lease is for five years ending on December 31, 2019. The rent for each of the years ended June 30, 2018 and 2017, was $219,240 and $204,306, respectively. Playworks is relocating its national office to another building in the same area of downtown Oakland in the fall of 2018. The building is owned by the same board member. The new ten-year office lease commences upon occupancy.

The same board member also owns the building in which Playworks rents office space in San Francisco, California. The term of the lease is on a month-to-month basis. Rental expense for each of the years ended June 30, 2018 and 2017, was $18,000.

NOTE 12 – RETIREMENT PLAN

Playworks 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. Playworks is authorized under the Plan to make employer contributions on behalf of its eligible employees. In May 2016, Playworks' Board of Directors approved an employer match of 3% of employee contributions. The match was implemented on July 1, 2016 and reduced to 1% of employee contributions on May 1, 2018. During the years ended June 30, 2018 and 2017, Playworks contributed $509,126 and $422,124, respectively.

NOTE 13 – HEALTH INSURANCE PROGRAM

Playworks sponsors the Comprehensive Preferred Medical and Prescription Drug Benefit Plan (the Plan) with Blue Shield. The Plan is a self-funded employee health benefits plan for eligible employees and their dependents. Blue Shield provides administrative services only under the operating agreement and assumes no liability for funding any benefit payments under the Plan. During the years ended June 30, 2018 and 2017, Playworks incurred $2,121,516 and $2,220,778, respectively, of expenses related to the Plan of which $247,858 and $271,679 was accrued at June 30, 2018 and 2017, respectively.

NOTE 14 – BOARD DESIGNATED NET ASSETS

Playworks' Board of Directors established a Sustainability Fund policy in 2013-14 to support working capital needs. The Board of Directors plans to build the fund over time to a level equivalent to three months' worth of expenses. In a prior year, Playworks received a one-time grant of $3.5 million to establish the fund, of which $1.5 million was used to pay off a line of credit. As a result of this designation, as of June 30, 2018 and 2017, Playworks' board designated Sustainability Fund had a balance of $112,723 and $1,403,989, respectively.

NOTE 15 – FISCAL SPONSORSHIP

In December 2015, Playworks' Board of Directors authorized management to create a fiscal sponsorship arrangement with Substantial. Substantial became a fiscally sponsored project within Playworks as of January 15, 2016. Substantial is partnering with schools and districts to help re-design the way they recruit, train and support substitute teachers, ensuring the time spent in classroom is engaging for students and rewarding for adults. Playworks accepts restricted contributions for this project and provides all support functions as it launches into a new social enterprise.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. Playworks recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including estimates inherent in the process of preparing financial statements. Playworks' financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date before the financial statements were available to be issued.

Playworks has evaluated subsequent events through October 12, 2018, which is the date the financial statements were available to be issued.

Schedule of Expenditures of Federal Awards

Playworks Education Energized
Schedule of Expenditures of Federal Awards
June 30, 2018

Federal Grantor/Pass-Through Grantor Program Title	CFDA	Pass-Through Entity Identifying Number	Federal Expenditures
Corporation for National Community Services			
Direct Award			
AmeriCorps	94.006	-	$ 1,294,129
Corporation for National Community Services			
Pass through Program from the state of California -			
AmeriCorps	94.006	15ACHCA0020004	701,279
Pass through Program from the District of Columbia -			
AmeriCorps	94.006	15ACHDC0010001	109,298
Pass through Program from the state of Maryland -			
AmeriCorps	94.006	13AFHMD0010008	137,759
Pass through Program from the state of Pennsylvania -			
AmeriCorps	94.006	16AFHPA0010003	156,260
Pass through Program from the state of Michigan -			
AmeriCorps	94.006	15AFHMI0010010	131,872
Pass through Program from the state of Louisiana -			
AmeriCorps	94.006	12ACHLA0010003	84,768
Pass through Program from the state of Massachusetts -			
AmeriCorps	94.006	15ACHMA0010005	157,284
Pass through Program from the state of Utah -			
AmeriCorps	94.006	11AFHUT0010009	213,844
Pass through Program from the state of North Carolina -			
AmeriCorps	94.006	12AFHNC0010008	66,681
TOTAL EXPENDITURES FOR CFDA 94.006 AND TOTAL EXPENDITURES FOR FEDERAL AWARDS			$ 3,053,174

See accompanying notes to the schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of presentation – The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Playworks under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of Playworks, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Playworks.

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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursements.

Subrecipients – Playworks did not provide any federal awards to subrecipients during the year ended June 30, 2018.

Indirect costs – Playworks has elected not to use the 10-percent de minimis cost rate allowed under the Uniform Guidance.

Report of Independent Auditors 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*

The Board of Directors
Playworks Education Energized

We have audited, 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, the financial statements of Playworks Education Energized ("Playworks"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Playworks' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Playworks' internal control. Accordingly, we do not express an opinion on the effectiveness of Playworks' internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Playworks' financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Playworks Education Energized's Response to Finding

Playworks' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Playworks' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
October 12, 2018

MOSSADAMS

Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

The Board of Directors
Playworks Education Energized

Report on Compliance for the Major Federal Program

We have audited Playworks Education Energized's ("Playworks") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the major federal program for the year ended June 30, 2018. Playworks' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Playworks' major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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' 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 on compliance for the major federal program. However, our audit does not provide a legal determination of Playworks' compliance.

Opinion on the Major Federal Program

In our opinion, Playworks complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Playworks is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Playworks' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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' 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 a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
October 12, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of major federal programs and type of auditor's report issued on compliance for major federal programs:

CFDA Number(s)	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
94.006	AmeriCorps	*Unmodified*

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II - Financial Statement Findings

Finding 2018-001 – Reconciliation of Grant Revenue – Significant Deficiency

Criteria – FASB ASC Topic 958-605, *Not-for-Profit: Revenue Recognition*, establishes accounting standards for the recognition and measurement of grant revenue for not-for-profit organizations, including assessment of the collectability of grants receivable.

Condition/Context – Grant revenue, grants receivable, and deferred revenue were not reconciled on a consistent or timely basis, resulting in certain contract balances being recognized as grants receivable and deferred revenue, when neither cash had been received or services had been performed for the grants. The testing of grant revenue noted two instances out of a sample of 26 that were improperly recognized on the statement of activities, valued at $110,000.

Effect – Grant revenue was not appropriately recognized in accordance with generally accepted accounting principles during the fiscal year.

Cause – Grant revenue, grants receivable, and deferred revenue were not reconciled on a consistent or timely basis during the fiscal year, due to the continual implementation of the revenue module in the new accounting systems during the fiscal year which led to accounts being reconciled at year end as opposed to on a monthly basis.

Repeat Finding – This is a repeat finding.

Recommendation – We recommend that Playworks' management continue to improve its process of performing a detailed analysis and reconciliation of grant revenue billed and cash received on a monthly basis to ensure that grant billings are appropriately recorded, and cash receipts are appropriately reconciled and applied to receivables. Additionally, we recommend Playworks continue to improve its process of performing an analysis of services rendered on their contractual arrangements on a monthly basis to ensure that deferred revenue is properly recorded throughout the year.

Management's response – Management agrees with the recommendation and has implemented a new accounting system to enable more timely and accurate analysis and reconciliation of grant revenue on a monthly basis. Additionally, management has increased its accounting staff headcount to handle the increasing number of grants.

Section III – Federal Award Findings and Questioned Costs

None reported.

Finding 2017-001 – Reconciliation of Grant Revenue – Significant Deficiency

Criteria – FASB ASC Topic 958-605, *Not-for-Profit: Revenue Recognition*, establishes accounting standards for the recognition and measurement of grant revenue for not-for-profit organizations, including assessment of the collectability of grants receivable.

Condition/Context – Grant revenue, grants receivable, and deferred revenue were not reconciled on a consistent or timely basis, resulting in certain contract balances being recognized as grants receivable and deferred revenue, when neither cash had been received or services had been performed for the grants. The testing of deferred revenue noted seven instances out of a sample of 23 that were improperly grossed up on the balance sheet, valued at $275,625.

In addition to the statement of financial position gross up issues noted above, there were also instances noted in which grants receivable were inappropriately classified as outstanding when amounts had been received, or inappropriately classified as deferred revenue when services had been performed and revenue had been earned. The testing of grants receivable noted one instance out of a sample of seven that was inappropriately recognized as revenue during the fiscal year, valued at $21,000. The testing of deferred revenue noted two instances out of a sample of 23 that were not appropriately recognized as revenue during the fiscal year, valued at $65,000.

Status – Unresolved. See Finding 2018-001.

PLAYWORKS

October 5, 2018

Moss Adams LLP
101 Second Street, Suite 900
San Francisco, CA 94105

RE: As required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we have provided below our response and corrective action plans addressing the findings noted in Playworks Education Energized's Single Audit reporting package for the year ended June 30, 2018.

Response and Corrective Action Plan

Finding 2018-001
Reconciliation of Grant Revenue – Significant Deficiency

Response and Corrective Action Plan: Management agrees with the recommendation and has implemented a new accounting system to enable more timely and accurate analysis and reconciliation of grant revenue on a monthly basis. Additionally, management has increased its accounting staff headcount to handle the increasing number of grants.

Anticipated Completion Date: By December 31, 2018.

Responsible Person: Tom Low, Chief Financial Officer

Sincerely,

DocuSigned by: Tom Low 5CA412933E4A4D8...	DocuSigned by: Kelsey Wicklund B99E23C6749F4D9...
Thomas E. Low	Kelsey Wicklund, CPA
Chief Financial Officer	Controller
(510) 992-6631	(510) 463-4767
tom.low@playworks.org	kelsey.wicklund@playworks.org

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