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

Playworks Education Energized

June 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

Going Concern

The accompanying financial statements have been prepared assuming that Playworks will continue as a going concern. As discussed in Note 16 to the financial statements, Playworks has experienced decreasing receipts of philanthropic funds without donor restrictions this past fiscal year, following negative changes in net assets without donor restrictions in the two previous fiscal years, and has stated that substantial doubt exists about Playworks' ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans in regard to these matters are also described in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Playworks adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classification of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

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 February 13, 2020, 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
February 13, 2020

Financial Statements

Playworks Education Energized
Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 774,268	$ 2,432,028
Accounts receivable, net of allowance for doubtful accounts of $115,821 and $143,973 in 2019 and 2018, respectively	1,774,677	2,900,265
Grants and pledges receivable, net of allowance of $5,000 and $0 in 2019 and 2018, respectively	3,624,765	3,583,888
Prepaid expenses and other assets	386,810	441,705
Total current assets	6,560,520	9,357,886
Property and equipment, net	1,801,352	469,602
Grants and pledges receivable, net of discount and current portion	1,864,711	2,116,504
Other long-term assets	64,829	76,798
TOTAL ASSETS	$ 10,291,412	$ 12,020,790
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 596,916	$ 982,255
Payroll and accrued benefits	1,979,089	2,107,827
Deferred revenue	1,021,346	537,278
Total current liabilities	3,597,351	3,627,360
Long-term liabilities	73,489	37,784
Total liabilities	3,670,840	3,665,144
NET ASSETS		
Without donor restrictions	(410,759)	112,723
With donor restrictions	7,031,331	8,242,923
Total net assets	6,620,572	8,355,646
TOTAL LIABILITIES AND NET ASSETS	$ 10,291,412	$ 12,020,790

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
SUPPORT						
Contributions	$ 992,309	$ 10,502,804	$ 11,495,113	$ 1,372,261	$ 7,806,553	$ 9,178,814
Corporate support	2,029,722	2,509,395	4,539,117	1,583,370	2,692,775	4,276,145
Contributions in-kind	697,483	-	697,483	522,460	-	522,460
Net assets released from restriction	14,223,791	(14,223,791)	-	17,930,747	(17,930,747)	-
Total support	17,943,305	(1,211,592)	16,731,713	21,408,838	(7,431,419)	13,977,419
REVENUE						
Direct service fees	14,468,502	-	14,468,502	14,289,244	-	14,289,244
Government grants	3,272,860	-	3,272,860	3,352,898	-	3,352,898
Training fees	3,656,063	-	3,656,063	3,079,906	-	3,079,906
Special events (net of direct expenses of $634,265 and $685,151 in 2019 and 2018, respectively)	1,068,193	-	1,068,193	1,365,464	-	1,365,464
Other revenue	58,039	-	58,039	191,234	-	191,234
Total revenue	22,523,657	-	22,523,657	22,278,746	-	22,278,746
Total support and revenue	40,466,962	(1,211,592)	39,255,370	43,687,584	(7,431,419)	36,256,165
EXPENSES						
Program services:						
Direct services	27,532,378	-	27,532,378	30,602,834	-	30,602,834
Training services	5,399,282	-	5,399,282	4,657,885	-	4,657,885
Total program services	32,931,660	-	32,931,660	35,260,719	-	35,260,719
Support services:						
Management and general	4,103,023	-	4,103,023	5,647,403	-	5,647,403
Fundraising	3,955,761	-	3,955,761	4,070,728	-	4,070,728
Total support services	8,058,784	-	8,058,784	9,718,131	-	9,718,131
Total expenses	40,990,444	-	40,990,444	44,978,850	-	44,978,850
CHANGE IN NET ASSETS	(523,482)	(1,211,592)	(1,735,074)	(1,291,266)	(7,431,419)	(8,722,685)
NET ASSETS, beginning of year	112,723	8,242,923	8,355,646	1,403,989	15,674,342	17,078,331
NET ASSETS, end of year	$ (410,759)	$ 7,031,331	$ 6,620,572	$ 112,723	$ 8,242,923	$ 8,355,646

Playworks Education Energized
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services			Supporting Services			
	Direct Services	Training Services	Subtotal	Management and General	Fundraising	Subtotal	Total
EXPENSES							
Salaries and wages	$ 18,872,921	$ 3,671,668	$ 22,544,589	$ 2,842,159	$ 2,517,621	$ 5,359,780	$ 27,904,369
Employee benefits	2,306,100	448,645	2,754,745	347,286	307,630	654,916	3,409,661
Payroll tax	1,397,272	271,835	1,669,107	210,422	186,394	396,816	2,065,923
Total salaries and related expenses	22,576,293	4,392,148	26,968,441	3,399,867	3,011,645	6,411,512	33,379,953
Travel and related expenses	499,806	97,236	597,042	75,268	66,673	141,941	738,983
Rent and occupancy, including in-kind	1,211,950	235,781	1,447,731	182,513	161,672	344,185	1,791,916
Legal and professional, including in-kind	1,306,541	254,184	1,560,725	196,758	174,291	371,049	1,931,774
Dues, licenses, service fees	372,871	72,541	445,412	56,152	49,740	105,892	551,304
Staff recruitment and training	232,832	45,297	278,129	35,063	31,060	66,123	344,252
Interest	33,523	6,522	40,045	5,048	4,472	9,520	49,565
Telephone	162,736	31,660	194,396	24,507	21,709	46,216	240,612
School supplies	143,107	55,521	198,628	10,745	9,518	20,263	218,891
Printing and publications	61,499	11,964	73,463	9,261	8,204	17,465	90,928
Insurance	123,209	23,970	147,179	18,555	16,436	34,991	182,170
Marketing and advertising	97,352	18,939	116,291	14,661	12,987	27,648	143,939
Meetings and conferences	140,163	27,268	167,431	21,108	18,698	39,806	207,237
Fundraising events, including in-kind	-	-	-	-	321,250	321,250	321,250
Small equipment and maintenance	63,035	12,263	75,298	9,493	8,409	17,902	93,200
Supplies	93,319	18,155	111,474	14,053	12,449	26,502	137,976
Postage	71,849	13,978	85,827	10,820	9,584	20,404	106,231
Utilities	28,612	5,566	34,178	4,309	3,817	8,126	42,304
Government grant commission	21,058	-	21,058	-	-	-	21,058
Bad debt expense	194,070	57,116	251,186	-	-	-	251,186
Total expenses before depreciation and amortization	27,433,825	5,380,109	32,813,934	4,088,181	3,942,614	8,030,795	40,844,729
Depreciation and amortization	98,553	19,173	117,726	14,842	13,147	27,989	145,715
Total functional expenses	$ 27,532,378	$ 5,399,282	$ 32,931,660	$ 4,103,023	$ 3,955,761	$ 8,058,784	$ 40,990,444

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
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (1,735,074)	$ (8,722,685)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	145,715	73,438
Loss on disposal of assets	11,910	-
Allowance for bad debt	(23,152)	-
Discount on pledges receivable	(18,207)	(29,522)
Changes in assets and liabilities:		
Accounts receivable	1,153,740	(487,462)
Grants and pledges receivable	224,123	8,708,835
Prepaid expenses and other assets	66,864	(40,592)
Accounts payable and accrued expenses	(385,339)	204,923
Payroll and employee benefits	(128,738)	(32,746)
Deferred revenue	484,068	(480,950)
Other long-term liabilities	35,705	(3,593)
Net cash used by operating activities	(168,385)	(810,354)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,489,375)	(300,130)
Net cash used by investing activities	(1,489,375)	(300,130)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,657,760)	(1,110,484)
CASH AND CASH EQUIVALENTS, beginning of year	2,432,028	3,542,512
CASH AND CASH EQUIVALENTS, end of year	$ 774,268	$ 2,432,028
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Cash paid for interest	$ 49,565	$ 24,095
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Additions to property and equipment included in accounts payable	$ 67,750	$ -

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, 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 from schools, 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 Pro also includes a new online training service, called PlayworksU, that supports school staff who learn via video modules how to implement Playworks' practices.

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:

> *Net Assets Without Donor Restrictions* – The portion of net assets that is not restricted by donor-imposed stipulations. The Board of Directors designated $0 and $112,723 as of June 30, 2019 and 2018, respectively, for Playworks' future working capital needs (see Note 14).
>
> *Net Assets With Donor Restrictions*– The portion of net assets whose use by Playworks is either (1) limited by donor-imposed stipulations that may expire either by passage of time or can be fulfilled and removed by actions of Playworks, or (2) limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Playworks and are held in perpetuity.

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, 2019 and 2018, Playworks had an allowance for doubtful accounts of $115,821 and $143,973, respectively. Bad debt expense for the years ended June 30, 2019 and 2018, amounted to $251,186 and $3,250, 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, 2019 and 2018.

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 net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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. An allowance for doubtful grants and pledges receivable is established based upon estimated losses related to specific accounts. As of June 30, 2019 and 2018, Playworks had an allowance for doubtful grants and pledges receivable of $69,825 and $0, respectively.

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, 2019 and 2018, 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, 2019 and 2018, were $143,939 and $150,257, 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 2018 financial statements have been reclassified to conform to the 2019 presentation.

New accounting pronouncements – During 2019, Playworks adopted FASB Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* This guidance is intended to improve the net asset classification requirements and the information presented in financial statements and notes about an entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; recognition of underwater endowment funds as a reduction in net assets with donor restrictions; and reporting investment income net of external and direct internal investment expenses. The guidance also enhances disclosures for board designated amounts, compositions of net assets with donor restrictions and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the statement of financial position date, and expenses by both their natural and functional classification, including methods used to allocate costs among program and support functions and underwater endowments.

In accordance with FASB ASC Topic 958, *Not-for-Profit Entities*, as of June 30, 2018, $112,723 of unrestricted net assets have been reclassified to net assets without donor restrictions, and $8,242,923 of temporarily restricted net assets have been reclassified to net assets with donor restrictions.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in FASB ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates FASB ASC Topic 606, *Revenue from Contracts with Customers*. The adoption of ASU 2014-09 is effective for Playworks beginning July 1, 2019. Management is currently evaluating the impact of the provisions of ASU 2014-09 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 effective date of ASU 2016-02 was deferred by ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, to annual periods beginning after December 15, 2020. As such, the adoption of ASU 2016-02 is effective for Playworks beginning July 1, 2021. Management is currently evaluating the impact of the provisions of ASU 2016-02 on Playworks' financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), to clarify and improve the scope and the accounting guidance for contributions received and made. The amendments should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 968, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, and also in determining whether a contribution is conditional. The adoption of ASU 2018-08 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 NET

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

	2019	2018
Foundation grants	$ 3,758,456	$ 3,612,172
Individuals	477,388	447,443
Corporate grants	530,440	999,490
Government contracts	723,192	641,287
Total	$ 5,489,476	$ 5,700,392

Gross contributions receivable as of June 30, 2019, are expected to be received as follows: $3,519,100 within one year and $1,920,000 within two to five years. Net contributions receivable as of June 30, 2019, within two to five years is $1,864,711, which is net of $55,289 in discount for present value. 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. Discount rates used for present value was 2.09%-3.84%.

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.

To achieve this goal, Playworks has expanded existing services, developed new services, and built 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 has invested in and built the infrastructure to ensure its capacity to reach even more children in the long term.

Of the $26,820,000 in grants awarded, $4,996,409 and $2,360,000 (less present value discount) was recognized as revenue in the years ended June 30, 2019 and 2018, respectively. No new conditional grants were received during the year ended June 30, 2019.

NOTE 4 – PROPERTY AND EQUIPMENT

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

	2019	2018
Website design	$ 244,006	$ 244,006
Furniture and equipment	400,153	591,878
Tenant improvements	1,579,320	154,284
Software	-	268,003
Construction in progress	-	248,848
	2,223,479	1,507,019
Less: accumulated depreciation and amortization	(422,127)	(1,037,417)
Total property and equipment	$ 1,801,352	$ 469,602

Depreciation and amortization expense for the years ended June 30, 2019 and 2018, was $145,715 and $73,438, respectively.

NOTE 5 – LINES OF CREDIT

Playworks entered into a $3,000,000 line of credit on March 1, 2012, with Beneficial State Bank. The line of credit was secured by Playworks' equipment, furniture, and accounts receivable. On January 3, 2018, Playworks extended the maturity date of the line of credit with Beneficial State Bank to January 29, 2019.

On December 21, 2018, Playworks entered into a $3,000,000 line of credit with Presidio Bank. The line of credit was secured by Playworks’ accounts receivable. As of June 30, 2019, there was no outstanding amount drawn. On August 5, 2019, Presidio Bank chose to revise terms of the line of credit to be only available for an amount equal to Playworks’ cash deposits.

On June 1, 2019, Playworks entered into a $1,000,000 line of credit with Jenesis Group for twelve months. This line of credit has an interest rate of 4.41% and is to be used for cash flow for operations. On October 1, 2019, Jenesis Group increased the line to $2,000,000 and extended the maturity date to September 30, 2020 (see Note 17).

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30 consisted of the following:

	2019	2018
Purpose and time restrictions:		
National expansion	$ 1,612,949	$ 5,752,224
Arizona	17,500	45,000
California - Northern	435,000	75,000
California - Southern	176,500	-
Colorado	144,000	36,500
Georgia	-	135,000
Illinois	50,000	5,000
Indiana	8,250	-
Maryland	-	12,500
New England	1,278,525	408,000
Michigan	774,365	247,849
Minnesota	114,000	50,000
Louisiana	-	-
North Carolina	-	-
New York / New Jersey	1,229,142	15,000
Pacific Northwest	-	-
Pennsylvania	124,500	127,000
Texas	10,000	37,500
Utah	1,000,000	1,200,000
Washington, D.C.	-	13,000
Wisconsin	56,600	83,350
Total	$ 7,031,331	$ 8,242,923

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:

	2019	2018
National expansion	$ 8,370,982	$ 11,763,955
Arizona	189,250	241,000
California - Northern	903,687	1,130,580
California - Southern	299,500	383,400
Colorado	331,750	289,250
Georgia	150,000	239,000
Illinois	195,000	160,250
Indiana	-	16,500
Maryland	207,285	241,500
New England	1,023,622	838,000
Michigan	857,889	423,732
Minnesota	75,850	144,000
Louisiana	-	66,500
North Carolina	40,800	199,500
New York / New Jersey	271,644	45,000
Pacific Northwest	101,075	395,250
Pennsylvania	275,357	288,680
Texas	37,500	56,500
Utah	621,500	659,500
Washington, D.C.	67,500	120,000
Wisconsin	203,600	228,650
Total	$ 14,223,791	$ 17,930,747

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:

	2019	2018
Legal and accounting services	$ 38,006	$ 195,803
Office space	426,397	124,909
Auction items	57,900	54,521
Other	175,180	147,227
Total	$ 697,483	$ 522,460

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,	
2020	$ 1,143,533
2021	920,277
2022	793,577
2023	699,646
2024	720,635
Thereafter	3,035,871
Total future minimum lease payments	$ 7,313,539

Rent expense for the years ended June 30, 2019 and 2018, was $1,622,765 and $1,064,673, respectively, and includes $426,397 and $124,909 of donated office space in Oakland, San Francisco, and Wisconsin for the years ended June 30, 2019 and 2018, respectively. Total rent and occupancy expense for the years ended June 30, 2019 and 2018, was $1,791,916 and $1,246,695, 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, 2019, approximately 27% of grants and pledges receivable were from two organizations and 19% of total support and revenue receivable was from one organization. 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.

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 new lease is for ten years ending on November 30, 2028. The rent for each of the years ended June 30, 2019 and 2018, was $426,961 and $219,240, respectively. 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, 2019 and 2018, 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, 2019 and 2018, Playworks contributed $163,993 and $509,126, respectively.

NOTE 13 – HEALTH INSURANCE PROGRAM

Playworks sponsors the Comprehensive Preferred Medical and Prescription Drug Benefit Plan (the Benefit Plan) with Aetna. The Benefit Plan is a self-funded employee health benefits plan for eligible employees and their dependents. Aetna provides administrative services only under the operating agreement and assumes no liability for funding any benefit payments under the Benefit Plan. During the years ended June 30, 2019 and 2018, Playworks incurred $2,389,676 and $2,121,516, respectively, of expenses related to the Benefit Plan of which $144,612 and $247,858 was accrued at June 30, 2019 and 2018, 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, 2019 and 2018, Playworks' board designated Sustainability Fund had a balance of $0 and $112,723, 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 – LIQUIDITY AND AVAILABILITY

The following table reflects Playworks' financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year:

Financial assets	
Cash and cash equivalents	$ 774,268
Accounts receivable, net of allowance for doubtful accounts	1,774,677
Grants and pledges receivable	3,624,765
Financial assets available to meet cash needs for general expenditure within one year	$ 6,173,710

As of June 30, 2019, Playworks has approximately $7 million of net assets with donor restrictions. Financial assets are considered unavailable when illiquid or not convertible to cash within one year of the statement of financial position date. Playworks has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Playworks also has available for general expenditures the lines of credit with Presidio Bank and Jenesis Group (see Note 5).

Playworks has experienced decreasing receipts of philanthropic funds without donor restrictions this past fiscal year, following negative changes in net assets without donor restrictions in the two previous fiscal years, raising substantial doubts about its ability to continue as a going concern within one year after the date of the financial statements are available to be issued (see Note 17). Playworks has actively reduced operational expenses by $4 million while expanding new earned revenue sources, which are expected to help it achieve net surplus in fiscal year 2020. Playworks is seeing success in securing general operating support, accounting for more than half of its development target in the first quarter of the 2019-20 budget year, increasing confidence that it will continue as a going concern. The financial statements were prepared on the basis of a going concern, which contemplates that Playworks will be able to realize assets and discharge liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should it be required to liquidate its assets. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 17 – 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.

On October 1, 2019, Playworks' line of credit with Jenesis Group was increased to $2,000,000 and the maturity date was extended to September 30, 2020.

Playworks has evaluated subsequent events through February 13, 2020, 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, 2019

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	17NDHCA001	$ 1,110,361
Corporation for National Community Services			
Pass through Program from the state of California -			
AmeriCorps	94.006	18ACHCA0010004	750,159
Pass through Program from the state of Maryland -			
AmeriCorps	94.006	16AFHMD0010007	122,125
Pass through Program from the state of Pennsylvania -			
AmeriCorps	94.006	16AFHPA0010003	144,107
Pass through Program from the state of Michigan -			
AmeriCorps	94.006	MACF18-82372	1,237
AmeriCorps	94.006	E20183160-00	131,474
Pass through Program from the state of Massachusetts -			
AmeriCorps	94.006	18ACHMA0010006	211,439
Pass through Program from the state of Utah -			
AmeriCorps	94.006	16ACHUT0010003	237,669
Pass through Program from the state of North Carolina -			
AmeriCorps	94.006	15AFHNC0010004	79,126
TOTAL EXPENDITURES FOR CFDA 94.006 AND TOTAL EXPENDITURES FOR FEDERAL AWARDS			$ 2,787,697

See accompanying notes to 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, 2019. 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, 2019.

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, 2019, 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 February 13, 2020.

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 2019-001, 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
February 13, 2020

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, 2019. 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, 2019.

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
February 13, 2020

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 2019-001 – 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.

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 turnover in certain key employees involved with the implementation of the revenue module in the new accounting systems during the fiscal year which led to accounts being reconciled subsequent to 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. We also recommend Playworks to ensure appropriate staffing to ensure the process are performed consistently, even when the turnover of employees occurs.

Management's response – Management agrees with the recommendation and will continue to finetune its implementation of the 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 and will continue to ensure appropriate cross-training of accounting staff to perform the analysis and reconciliation.

Section III – Federal Award Findings and Questioned Costs

None reported.

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.

Status – Unresolved. See Finding 2019-001.

PLAYWORKS

630 Third Street,
Oakland, CA 94607

February 13, 2020

To Whom It May Concern,

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 responses and corrective action plan addressing the finding noted in Playworks Education Energized's Single Audit reporting package for the year ended June 30, 2019.

Response and Corrective Action Plan

Current Findings on the Schedule of Findings and Questioned Costs
Finding No. 2019-001 – Reconciliation of Grant Revenue – Significant Deficiency

Response and Corrective Action Plan: Management agrees with the finding and with the recommendation and has implemented a new accounting to enable more timely and accurate analysis and reconciliation of grant revenue on a monthly basis, and will continue to follow these policies.

Responsible Person: Costa John, Chief Financial Officer

Sincerely,

Costa John
Chief Financial Officer
Playworks Education Energized
costa.john@playworks.org
510-593-6657