

PLAYWORKS EDUCATION ENERGIZED

JUNE 30, 2015



INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Playworks Education Energized

Independent Auditors' Report and Financial Statements

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Independent Auditors' Report

BOARD OF DIRECTORS
PLAYWORKS EDUCATION ENERGIZED
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of **PLAYWORKS EDUCATION ENERGIZED (Playworks)**, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

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

Consultants and

Business Advisors

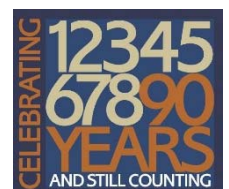
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and the related changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

San Francisco, California
January 22, 2016

Playworks Education Energized

Statement of Financial Position

June 30, 2015

Assets:

Cash and cash equivalents	\$	1,997,466
Accounts receivable, net		1,401,744
Grants and pledges receivable, net		5,207,036
Property and equipment, net		231,708
Prepaid expenses and other assets		507,293

Total Assets	\$	9,345,247
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Liabilities and Net Assets**Liabilities:**

Accounts payable and accrued expenses	\$	415,669
Payroll and accrued benefits		1,543,869
Deferred revenue		475,753

Total liabilities		2,435,291
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Net Assets:

Unrestricted net assets		2,480,120
Temporarily restricted		4,429,836

Total net assets		6,909,956
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Total Liabilities and Net Assets	\$	9,345,247
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See accompanying notes to financial statements.

Playworks Education Energized

Statement of Activities

Year Ended June 30, 2015

	2015		
	Unrestricted	Temporarily Restricted	Total
Support:			
Contributions	\$ 1,047,198	\$ 5,962,472	\$ 7,009,670
Corporate support	1,345,092	4,031,007	5,376,099
Contributions in-kind	323,805		323,805
Net assets released from restriction	9,558,255	(9,558,255)	-
Total support	12,274,350	435,224	12,709,574
Revenue:			
Direct service fees	12,069,817		12,069,817
Government grants	3,474,453		3,474,453
Training fees	1,894,605		1,894,605
Special events (net of direct expenses of \$561,277 for 2015)	492,057		492,057
Other revenue	418,738		418,738
Total revenue	18,349,670	-	18,349,670
Total support and revenue	30,624,020	435,224	31,059,244
Expenses:			
Program services:			
Direct services	22,781,987		22,781,987
Training services	1,607,832		1,607,832
Total program services	24,389,819	-	24,389,819
Support services:			
Management and general	2,292,054		2,292,054
Fundraising	3,375,587		3,375,587
Total support services	5,667,641	-	5,667,641
Total expenses	30,057,460	-	30,057,460
Change in Net Assets	566,560	435,224	1,001,784
Net Assets, beginning of year	1,913,560	3,994,612	5,908,172
Net Assets, end of year	\$ 2,480,120	\$ 4,429,836	\$ 6,909,956

See accompanying notes to financial statements.

Playworks Education Energized

Statement of Functional Expenses

Year Ended June 30, 2015

	Program Services			Supporting Services			
	Direct Services	Training Services	Total	Management and General	Fundraising	Total	Total
Expenses:							
Salaries and wages	\$ 16,787,869	\$ 1,017,762	\$ 17,805,631	\$ 1,232,537	\$ 2,483,180	\$ 3,715,717	\$ 21,521,348
Employee benefits	1,862,715	112,927	1,975,642	136,757	275,524	412,281	2,387,923
Payroll tax	1,440,690	87,342	1,528,032	105,773	213,100	318,873	1,846,905
Total salaries and related expenses	20,091,274	1,218,031	21,309,305	1,475,067	2,971,804	4,446,871	25,756,176
Travel and related expenses	417,393	219,081	636,474	105,976	77,265	183,241	819,715
Rent and occupancy, including in-kind	989,377	13,644	1,003,021	151,069	49,553	200,622	1,203,643
Legal and professional, including in-kind	207,234	7,221	214,455	285,627	19,277	304,904	519,359
Dues, licenses, service fees	223,342	15,068	238,410	42,040	81,843	123,883	362,293
Staff recruitment and training	95,692	450	96,142	50,909	9,653	60,562	156,704
Interest	3,488	238	3,726	973	830	1,803	5,529
Telephone	106,705	10,047	116,752	10,322	24,534	34,856	151,608
School supplies	193,812	1,728	195,540	9,739	7,373	17,112	212,652
Printing and publications	43,775	36,316	80,091	207	32,969	33,176	113,267
Insurance	117,060	8,709	125,769	16,778	28,589	45,367	171,136
Marketing and advertising	8,845	5,631	14,476	94,693	4,680	99,373	113,849
Small equipment and maintenance	34,726	1,691	36,417	9,142	5,743	14,885	51,302
Supplies	34,627	50,052	84,679	(4,785)	5,955	1,170	85,849
Postage	9,097	6,258	15,355	15,155	14,131	29,286	44,641
Utilities	21,205	1,127	22,332	2,379	3,763	6,142	28,474
Government grant commission	29,366		29,366				29,366
Allowance for bad debt	14,675	2,075	16,750	2,897	4,061	6,958	23,708
Total expenses before depreciation and amortization	22,641,693	1,597,367	24,239,060	2,268,188	3,342,023	5,610,211	29,849,271
Depreciation and amortization	140,294	10,465	150,759	23,866	33,564	57,430	208,189
Total functional expenses	\$ 22,781,987	\$ 1,607,832	\$ 24,389,819	\$ 2,292,054	\$ 3,375,587	\$ 5,667,641	\$ 30,057,460

See accompanying notes to financial statements.

Playworks Education Energized

Statement of Cash Flows

Year Ended June 30, 2015

Cash Flows from Operating Activities:

Changes in net assets	\$ 1,001,784
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization	208,189
Allowance for bad debt	23,707
Changes in assets and liabilities:	
Account receivables	(398,139)
Grants and pledges receivable	1,041,728
Prepaid expenses and other assets	(32,004)
Accounts payable and accrued expenses	(52,373)
Payroll and employee benefits	330,991
Deferred revenue	(185,640)

Net cash provided by operating activities	1,938,243
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Cash Flows from Investing Activities:

Purchase of property and equipment	(22,285)
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Net cash used by investing activities	(22,285)
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Cash Flows from Financing Activities:

Proceeds from lines of credit borrowings	500,000
Repayments of lines of credit borrowings	(2,000,000)

Net cash used by financing activities	(1,500,000)
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Net Increase in Cash and Cash Equivalents	415,958
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Cash and Cash Equivalents, beginning of year	1,581,508
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Cash and Cash Equivalents, end of year	\$ 1,997,466
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Supplemental Disclosure of Cash Flows:

Cash paid for interest	\$ 18,658
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See accompanying notes to financial statements.

Playworks Education Energized

Notes to Financial Statements

Note 1 - Organization:

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, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Carolina, Northern California (East Bay, San Francisco, 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 activity into the school curriculum;
- Develop and coordinate before or after school physical activity programs;
- Coordinate interscholastic developmental sports leagues such as basketball, volleyball, soccer and others;
- Implement a youth leadership program at each site; and
- Employ play as a tool for generating more community and family involvement.

Playworks Education Energized

Notes to Financial Statements

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

Playworks Pro – Built on best practices in youth development, as well as a history of evidence-based success from its direct service program. Playworks Pro teaches group management, conflict resolution, games facilitation and other essential skills that transform playgrounds. Playworks Pro provides customized staff trainings to schools and school districts, after school programs, summer camps, and other youth service organizations. 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.

Note 2 - Significant Accounting Policies:

a. 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 designated \$2,000,000 for Playwork's 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. Playworks does not have any permanently restricted net assets.

Playworks Education Energized

Notes to Financial Statements

b. Cash and Cash Equivalents

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

c. Accounts Receivable

Accounts receivable represent amounts due from schools and are stated at the amount Playworks expects to collect for contract services. Provision for losses on receivables is made when considered necessary to maintain an adequate allowance to cover bad debts. Receivables are charged against the allowance when Playworks determines that payments will not be received. Any subsequent receipts are credited to the allowance. As of June 30, 2015, Playworks had an allowance for doubtful accounts of \$137,760. Bad debt expense for the year ended June 30, 2015 amounted to \$23,707.

d. Property and Equipment

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

e. 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. Contributions restricted by the donor are reported as an increase in unrestricted net assets if the restriction is released in the same reporting period in which the contribution is received.

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.

Playworks Education Energized

Notes to Financial Statements

Government grants and revenue are recognized when Playworks incurs expenditures related to the required services. Amounts billed or received in advanced 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.

f. Contributions In-Kind

Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which 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.

g. Functional Expense Allocation

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

h. Income Taxes

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

Playworks follows the guidelines of the Financial Accounting Standards Board (FASB) ASC Topic 740 for accounting for uncertainty in income taxes. As of June 30, 2015 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.

Playworks Education Energized

Notes to Financial Statements

i. Marketing and Advertising

Playworks' policy is to expense marketing and advertising costs as the costs are incurred. Marketing and advertising expenses for the year ended June 30, 2015 was \$113,849.

j. 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.

k. Subsequent Events

Playworks evaluated subsequent events with respect to the financial statements for the year ended June 30, 2015 through January 22, 2016, the date the financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure, except as discussed in Note 5.

Note 3 - Grants Receivable:

Grants and pledges receivable consist of the following at June 30, 2015:

Foundation grants	\$ 3,699,900
Individuals	290,745
Corporate grants	742,500
Government contracts	473,891
<hr/>	
Total	\$ 5,207,036

Contributions receivable as of June 30, 2015 are expected to be received as follows: \$4,074,036 within one year and \$1,133,000 within two to five years.

Playworks is the recipient of three conditional grants of up to \$970,376 over three years. The conditional grants are based upon both reporting requirements and other metrics that must be met prior to additional payments. Playworks earned approximately \$295,000 under these grants during the year ended June 30, 2015.

Playworks Education Energized

Notes to Financial Statements

Note 4 - Property and Equipment:

Property and equipment costs consist of the following at June 30, 2015:

Website design	\$ 352,423
Furniture and equipment	378,736
Tenant improvements	195,199
Software	309,043
	<hr/>
	1,235,401
Less: Accumulated Depreciation	(1,003,693)
	<hr/>
Property and Equipment, Net	\$ 231,708

Depreciation expense for the year ended June 30, 2015 was \$190,931.

Note 5 - Lines of Credit:

In a prior year, Playworks entered into a one-year line of credit agreement with The Genesis 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 September 30, 2014, The Genesis Group approved a 15-month extension of the line of credit through December 31, 2015 and the interest rate remained the same at 3.02%. As of June 30, 2015, there is no outstanding amount due.

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' machinery, equipment, furniture and accounts. The loan bears interest at 3.25% plus index. On September 23, 2014, Playworks extended the maturity date of the line of credit with Beneficial State Bank to January 21, 2015 and on January 22, 2015 the maturity date was extended to January 21, 2016. As of June 30, 2015 there is no outstanding amount due.

Subsequent to year end, Playworks extended the maturity date of the line of credit with the Genesis Group and Beneficial State Bank to December 31, 2016 and March 21, 2016, respectively.

Playworks Education Energized

Notes to Financial Statements

Note 6 - Temporarily Restricted Net Assets:

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

National Expansion	\$ 2,453,872
Pacific Northwest programs	377,000
New England programs	313,000
Colorado programs	305,580
Northern California programs	257,500
Arizona programs	132,500
Pennsylvania programs	114,759
Georgia programs	100,000
Other regional programs	375,625
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Total	\$ 4,429,836

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:

National expansion	\$ 4,023,148
Northern California programs	1,380,000
New England programs	755,000
Colorado programs	559,900
Pacific Northwest programs	472,000
Maryland programs	300,721
Utah programs	235,757
Minnesota programs	214,626
Washington DC programs	197,200
Southern California programs	181,300
Pennsylvania programs	167,500
Arizona programs	157,500
Louisiana programs	154,080
Indiana programs	152,000
Georgia programs	139,000
North Carolina program	114,000
Other regional programs	354,523
<hr/>	
Total	\$ 9,558,255

Playworks Education Energized

Notes to Financial Statements

Note 8 - Contributions In-Kind:

The estimated fair value of donated space and expert services are recorded as contributions. During the year ended June 30, 2015, the following in-kind contributions were received by Playworks:

Legal Services	\$ 108,507
Office Space	215,298
<hr/>	
Total	\$ 323,805

Note 9 - Commitments and Contingencies:

a. 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,	
2016	\$ 759,800
2017	520,400
2018	325,200
2019	242,200
2020	123,700
Thereafter	1,500
<hr/>	
Total Future Minimum Lease Payments	\$ 1,972,800

Rent expense for the year ended June 30, 2015 was \$1,021,790 and includes \$215,298 of donated office space in Oakland, San Francisco and Wisconsin. Total rent and occupancy expense for the year ended June 30, 2015 was \$1,203,643.

b. 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.

Playworks Education Energized

Notes to Financial Statements

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.

All grants receivables consist primarily of unsecured amounts due from individuals, corporations, foundations, and government agencies. Approximately 29% of grants receivable is from one foundation. Playworks receives approximately 38% of its revenue from contracts with school districts.

Note 11 - Related Party Transactions:

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

A board member 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 five years ending on December 31, 2019. The rent for the year ended June 30, 2015 was \$216,000.

The same board member also owns the building in which Playworks rents office space in downtown San Francisco, California. The term of the lease is on a month-to-month basis. Rental expense for the year ended June 30, 2015 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. During the year ended June 30, 2015, no contributions were made by Playworks.

Playworks Education Energized

Notes to Financial Statements

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 employee 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 year ended June 30, 2015, Playworks incurred \$1,735,663 of expenses related to the Plan of which \$496,201 was accrued at June 30, 2015.

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 during the current year to pay off a line of credit.

As a result of this designation, Playworks unrestricted net assets as of June 30, 2015, consisted of the following:

Board designated - Sustainability Fund	\$ 2,000,000
Undesignated	480,120
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Total Unrestricted Net Assets	\$ 2,480,120