

PLAYWRIGHTS HORIZONS, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2016 AND 2015

PLAYWRIGHTS HORIZONS, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Playwrights Horizons, Inc.

We have audited the accompanying financial statements of Playwrights Horizons, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities 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.

Auditors' 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. 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 auditors' 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 Playwrights Horizons, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
December 14, 2016

PLAYWRIGHTS HORIZONS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents (Notes 1b and 9)	\$ 589,822	\$ 642,755
Accounts receivable	142,798	73,213
Unconditional promises to give (Notes 1c and 3)	4,744,034	958,184
Prepaid expenses	583,592	377,100
Property and equipment, at cost (net of accumulated depreciation) (Notes 1d and 5)	21,221,989	21,998,641
Security deposits	85,921	85,746
Restricted certificates of deposit	71,168	69,761
Investments (Notes 1e, 1f and 6)	<u>2,286,532</u>	<u>2,387,926</u>
Total Assets	<u><u>\$29,725,856</u></u>	<u><u>\$26,593,326</u></u>
Liabilities and Net Assets		
Liabilities		
Notes payable (Note 7)	\$ 27,493	\$ 30,932
Accounts payable and other current liabilities	646,151	351,360
Deferred box office income	770,986	697,934
Deferred rental income	23,999	93,250
Total Liabilities	<u>1,468,629</u>	<u>1,173,476</u>
Commitments and Contingencies (Notes 7 and 8)		
Net Assets		
Unrestricted		
Property and equipment and related liabilities	21,194,496	21,967,709
Board designated reserve - campaign (Note 2b)	190,398	-
General (Note 2a)	<u>(98,815)</u>	<u>(369,192)</u>
Total Unrestricted	21,286,079	21,598,517
Temporarily restricted (Note 2c)	5,274,635	2,094,290
Permanently restricted (Note 2d)	<u>1,696,513</u>	<u>1,727,043</u>
Total Net Assets	<u>28,257,227</u>	<u>25,419,850</u>
Total Liabilities and Net Assets	<u><u>\$29,725,856</u></u>	<u><u>\$26,593,326</u></u>

See notes to financial statements.

PLAYWRIGHTS HORIZONS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Changes in Unrestricted Net Assets		
Revenues and Support		
Contributions	\$ 2,316,343	\$ 2,263,904
Campaign contributions (Note 10)	513,333	104,000
Gross benefit income	719,370	820,929
Less: Direct benefit expense	(107,397)	(99,857)
Box office receipts	2,570,467	1,662,879
Ticket Central revenue (Note 11)	1,015,720	1,094,429
Theater school (Note 1a)	2,639,115	2,424,580
Rental income (Note 8)		
Playwrights Rehearsal Studios	821,773	865,665
Other	208,987	223,140
Royalties	56,149	45,457
Facility fees	47,022	27,291
Investment income (Note 6)	1,474	1,957
Other revenue	53,413	45,657
	<u>10,855,769</u>	<u>9,480,031</u>
Total Revenues and Support Before Net Assets Released from Restrictions		
	10,855,769	9,480,031
Net assets released from restrictions		
Satisfaction of time and program restrictions	868,429	675,783
	<u>868,429</u>	<u>675,783</u>
Total Revenues and Support		
	<u>11,724,198</u>	<u>10,155,814</u>
Expenses (excluding depreciation)		
Program Services		
Productions and play development	5,614,581	4,960,100
Ticket Central (Note 11)	793,936	791,976
Theater School	1,878,618	1,798,136
Playwrights Rehearsal Studios	744,336	732,008
Total Program Services	<u>9,031,471</u>	<u>8,282,220</u>
Supporting Services		
Management and general	1,263,347	986,389
Fundraising	886,415	868,942
Total Supporting Services	<u>2,149,762</u>	<u>1,855,331</u>
Total Expenses Before Depreciation and Non-Operating Expenses (carried forward)		
	<u>11,181,233</u>	<u>10,137,551</u>

See notes to financial statements.

PLAYWRIGHTS HORIZONS, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Total Expenses Before Depreciation and Non-Operating Expenses (brought forward)	\$11,181,233	\$10,137,551
Depreciation	840,316	852,463
Non-Operating Expenses		
Interest and amortization of financing costs	<u>15,087</u>	<u>13,984</u>
Total Expenses	<u>12,036,636</u>	<u>11,003,998</u>
Decrease in Unrestricted Net Assets	<u>(312,438)</u>	<u>(848,184)</u>
Changes in Temporarily Restricted Net Assets		
Contributions	331,890	402,687
Campaign contributions (Note 10)	3,703,211	-
Investment income (Note 6)	13,673	36,858
Net assets released from restrictions	(868,429)	(675,783)
Redesignation by donor of prior years endowment income	<u>-</u>	<u>38,093</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>3,180,345</u>	<u>(198,145)</u>
Changes in Permanently Restricted Net Assets		
Investment income (loss) (Note 6)	(30,530)	1,240
Redesignation by donor of prior years endowment income	<u>-</u>	<u>(38,093)</u>
Decrease in Permanently Restricted Net Assets	<u>(30,530)</u>	<u>(36,853)</u>
Increase (decrease) in net assets	2,837,377	(1,083,182)
Net assets, beginning of year	<u>25,419,850</u>	<u>26,503,037</u>
Net Assets, End of Year	<u><u>\$28,257,227</u></u>	<u><u>\$25,419,855</u></u>

See notes to financial statements.

PLAYWRIGHTS HORIZONS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 2,837,377	\$ (1,083,182)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	853,137	865,284
Unrealized (gain) loss on investments	54,782	(1,035)
(Increase) decrease in:		
Accounts receivable	(69,585)	21,788
Unconditional promises to give	(3,785,850)	44,049
Prepaid expenses	(219,313)	(144,410)
Security deposits	(175)	(24,583)
Increase (decrease) in:		
Accounts payable and other current liabilities	294,791	(185,461)
Deferred box office income	73,052	50,034
Deferred rental income	(69,251)	(18,229)
Net Cash Used By Operating Activities	<u>(31,035)</u>	<u>(475,745)</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(63,664)	(42,891)
Purchase of investments	(44,235)	(1,723,995)
Sale of investments	90,847	1,712,543
Purchase of restricted certificate of deposit	(1,407)	(1,957)
Net Cash Used By Investing Activities	<u>(18,459)</u>	<u>(56,300)</u>
Cash Flows From Financing Activities		
Repayment of notes payable	(3,439)	(3,439)
Repayment on line of credit	(300,000)	(500,000)
Proceeds from use of line of credit	300,000	500,000
Net Cash Used By Financing Activities	<u>(3,439)</u>	<u>(3,439)</u>
Net decrease in cash and cash equivalents	(52,933)	(535,484)
Cash and cash equivalents, beginning of year	<u>642,755</u>	<u>1,178,239</u>
Cash and Cash Equivalents, End of Year	<u>\$ 589,822</u>	<u>\$ 642,755</u>
Supplemental Information		
Interest paid	<u>\$ 2,266</u>	<u>\$ 1,163</u>

See notes to financial statements.

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

Playwrights Horizons, Inc. is dedicated to the support and development of contemporary American playwrights, composers and lyricists and to the production of their new work. The Organization's other activities include a theater school, a central box office service (Ticket Central) and rental of studio and theater spaces at its theater location on West 42nd Street and at 440 Lafayette Street (the "Downtown facility"). Virtually all of the theater school income is received from a single university.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents, except for those short-term investments managed by the Organization's investment managers as part of their long-term investment strategies.

c - Contributions and Promises to Give

The Organization reports contributions received as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. Conditional promises to give are not recorded until such time as the conditions are substantially met.

The Organization uses the allowance method to determine uncollectible promises to give, when necessary. The allowance is based on prior years' experience and management's analysis of specific promises made.

d - Property and Equipment

Property and equipment are recorded at cost, if purchased, and at fair value at date of donation, if contributed, and are being depreciated using the straight-line method over the estimated useful life of the asset.

e - Investments

The Organization reflects investments at fair value in the statement of financial position. Realized and unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire in the fiscal year in which the investment income is recognized.

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

f - Fair Value Measurements

Fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). Fair value measurements are not adjusted for transaction costs. A fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels.

Unadjusted quoted prices in active markets for identical assets or liabilities are referred to as Level 1 inputs. Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the assumptions developed by the Organization based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. Level 3 assets and liabilities involve greater judgment than Level 1 or Level 2 assets or liabilities.

g - Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

h - Functional Allocation of Expenses

The costs of providing the various programs and the supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services in reasonable ratios determined by management.

i - Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

j - Tax Status

Playwrights Horizons, Inc. is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

k - Advertising

Advertising costs are charged to operations when the advertising first takes place. Advertising expense was \$336,431 and \$196,322 for 2016 and 2015, respectively.

l - Subsequent Events

The Organization has evaluated subsequent events through December 14, 2016, the date that the financial statements are considered available to be issued.

Note 2 - Restrictions on Net Assets

a - Unrestricted Net Assets

Unrestricted net assets include the following activities:

- i) The Organization's play and musical theater development and its season of Mainstage and Sharp productions.
- ii) Ticket Central, which is operated as a centralized and low-cost box office for performing arts organizations.
- iii) The Theater School, which is operated in association with New York University's Tisch School of the Arts Undergraduate Drama Program. It offers courses of study in directing, acting, design, dramaturgy and theater management.
- iv) Playwrights Rehearsal Studios, an assumed name registered with New York State, which rents available studio space at the Downtown facility to outside organizations.

b - Board Designated Reserve - Campaign

In October 2015, the Organization launched a \$15 million campaign to raise Artistic Reserve and Capital funds. The Artistic Reserve Fund supports new and expanded artistic activities and audience-focused programs. The Capital Fund supports improvements to the Organization's two facilities: West 42nd Street building (which houses the Organization's two theaters, rehearsal studios, and staff); and the Downtown facility (which houses the Organization's theater school, resident company program and rehearsal spaces serving the downtown community). Unrestricted funds raised as part of the campaign (i.e. funds not restricted by the donor) are restricted by the Board and are classified as Board Designated Reserve - Campaign. The Board of Trustees controls and authorizes the use of these funds. During the year ended June 30, 2016, the Organization raised \$4,216,544 and the Board approved \$322,935 of spending. Of the remaining funds, \$3,703,211 are restricted for future use, and are reflected in temporarily restricted net assets (see Note 2c) and the balance remains in Board designated reserve - campaign.

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 2 - Restrictions on Net Assets (continued)

c - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Future programs	\$1,177,088	\$1,353,557
Future periods	188,942	504,257
Future periods - Campaign	3,703,211	-
Playwrights commissions	<u>205,394</u>	<u>236,476</u>
	<u>\$5,274,635</u>	<u>\$2,094,290</u>

d - Permanently Restricted Net Assets

Permanently restricted net assets are restricted as follows:

i) Cash Reserve Funds

The Cash Reserve of \$300,000 includes amounts received from the Lila Wallace-Reader's Digest Fund. Interfund borrowings from this fund must be repaid within eleven months. Borrowings outstanding as of June 30, 2016 were \$12,000 (repaid subsequent to year end).

ii) Miller Endowment Funds

The Kathryn and Gilbert Miller Endowment for American Playwrights in the amount of \$50,000, the income from which is used to commission new works by American playwrights.

iii) Other Endowment Funds

These funds include amounts raised through a capital campaign. There are two components to the endowment:

1. Income to be used for production in and maintenance of the Peter Jay Sharp Theater.
2. Income to be used to offset expenses related to any aspect of the Organization.

The balances in permanently restricted net assets at June 30 are as follows:

	<u>2016</u>	<u>2015</u>
Cash reserve	\$ 300,000	\$ 300,000
Endowment Funds		
Miller Endowment	50,000	50,000
Peter Jay Sharp	971,513	1,002,043
General	<u>375,000</u>	<u>375,000</u>
	<u>\$1,696,513</u>	<u>\$1,727,043</u>

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 3 - Unconditional Promises to Give

Unconditional promises to give at June 30 are due as follows:

	<u>2016</u>				<u>2015</u>		
	<u>Unrestricted</u>	<u>Future Programs and Periods</u>	<u>Future Programs and Periods - Campaign</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Future Programs and Periods</u>	<u>Total</u>
Less than one year	\$591,506	\$392,582	\$ 533,333	\$1,517,421	\$244,693	\$485,834	\$730,527
One to five years	51,000	8,000	3,283,334	3,342,334	-	236,000	236,000
	<u>642,506</u>	<u>400,582</u>	<u>3,816,667</u>	<u>4,859,755</u>	<u>244,693</u>	<u>721,834</u>	<u>966,527</u>
Less: Discount to present value	-	(1,731)	(113,456)	(115,187)	-	(7,809)	(7,809)
Allowance for uncollectible promises to give	(534)	-	-	(534)	(534)	-	(534)
	<u>\$641,972</u>	<u>\$398,851</u>	<u>\$3,703,211</u>	<u>\$4,744,034</u>	<u>\$244,159</u>	<u>\$714,025</u>	<u>\$958,184</u>

During the year ended June 30, 2014, the Organization launched a new multi-year giving program called the Artistic Director's Circle. As of June 30, 2016, the Organization raised a total of \$906,268 of which \$105,000 is reflected in temporarily restricted net assets. At June 30, 2016 and 2015, there were outstanding unconditional promises to give in the amount of \$105,000 and \$390,877, respectively, from this initiative which are reflected in the future programs, projects and periods column.

The Organization has received an appropriation from The City of New York Department of Cultural Affairs (the "City") for equipment purchases totaling \$436,361. Of this amount, the Organization has recognized \$181,911. The remaining balance is conditional upon the Organization purchasing the equipment and upon approval by the City.

In addition, the Organization received a \$250,000 conditional pledge from a donor for production support, of which \$200,000 has not been reflected in these financial statements since it remains subject to certain conditions.

Unconditional promises to give that are due in more than one year are discounted to net present value using a discount rate of 1.5% per annum.

Note 4 - Endowment Funds

The Organization's endowment consists of three donor-restricted, individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 4 - Endowment Funds (continued)

Consistent with New York State Not-for-Profit Corporation Law and the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of any applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization.

In accordance with NYPMIFA, the Organization is required to consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (i) the duration and preservation of the endowment fund;
- (ii) the purposes of the Organization and the endowment fund;
- (iii) general economic conditions;
- (iv) the possible effect of inflation or deflation;
- (v) the expected total return from income and the appreciation of investments;
- (vi) other resources of the Organization;
- (vii) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Organization; and
- (viii) the investment policy of the Organization

The Organization's endowment funds composition, by type of fund and net asset classification, are summarized as follows at June 30:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds, 2016	<u>\$65,633</u>	<u>\$1,396,513</u>	<u>\$1,462,146</u>
Donor-restricted endowment funds, 2015	<u>\$71,779</u>	<u>\$1,427,043</u>	<u>\$1,498,822</u>

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 4 - Endowment Funds (continued)

Changes in the Organization's endowment funds for the years ended June 30, 2016 and 2015 are summarized as follows:

	2016		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	<u>\$71,779</u>	<u>\$1,427,043</u>	<u>\$1,498,822</u>
Investment Return (Loss):			
Investment income, net of investment fees	34,582	-	34,582
Net realized and unrealized loss	<u>(11,587)</u>	<u>(30,530)</u>	<u>(42,117)</u>
Total Investment Return (Loss)	<u>22,995</u>	<u>(30,530)</u>	<u>(7,535)</u>
Appropriation of endowment assets for expenditure	<u>(29,141)</u>	-	<u>(29,141)</u>
Endowment Funds, End of Year	<u>\$65,633</u>	<u>\$1,396,513</u>	<u>\$1,462,146</u>
	2015		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	<u>\$43,102</u>	<u>\$1,463,896</u>	<u>\$1,506,998</u>
Investment Return:			
Investment income, net of investment fees	22,879	-	22,879
Net unrealized gain (loss)	<u>(721)</u>	<u>1,240</u>	<u>519</u>
Total Investment Return	<u>22,158</u>	<u>1,240</u>	<u>23,398</u>
Redesignation of income due to revision to original terms of grant	<u>38,093</u>	<u>(38,093)</u>	-
Appropriation of endowment assets for expenditure	<u>(31,574)</u>	-	<u>(31,574)</u>
Endowment Funds, End of Year	<u>\$71,779</u>	<u>\$1,427,043</u>	<u>\$1,498,822</u>

Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. The Organization has adopted as approved by the Board of Trustees, investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. To the extent that these goals are in conflict, the Organization favors preserving purchasing power even when doing so means sacrificing operating support.

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 4 - Endowment Funds (continued)

Strategies Employed for Achieving Objectives

To pursue its objectives, the Organization relies on an indexing strategy that combines cash (and liquid fixed-income asset holdings) needed to meet near-term disbursement commitments with appropriate holdings of diversified portfolios of riskier assets (such as the S&P 500) expected to produce long-term performance exceeding inflation.

Spending Policy and How the Investment Objectives Relate to Spending Policy

An amount of net investment income up to 2% of the market value of the endowment funds averaged over the three preceding fiscal years (as of the end of each fiscal year), shall be released in the current fiscal year upon adoption of the annual budget by the Board of Trustees.

Note 5 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2016</u>	<u>2015</u>
Building and building improvements	40 years	\$29,053,024	\$29,047,107
Leasehold improvements	10 years	527,467	519,939
Theater equipment	5-10 years	1,451,850	1,451,850
Furniture and fixtures	7-20 years	253,700	246,696
Office equipment and furniture	5-7 years	<u>1,081,181</u>	<u>1,037,966</u>
		32,367,222	32,303,558
Less: Accumulated depreciation		<u>(12,395,233)</u>	<u>(11,554,917)</u>
		19,971,989	20,748,641
Land		<u>1,250,000</u>	<u>1,250,000</u>
		<u>\$21,221,989</u>	<u>\$21,998,641</u>

Depreciation expense for the years ended June 30, 2016 and 2015 amounted to \$840,316 and \$852,463, respectively.

The City of New York has budgeted \$2,150,000 for capital appropriations relating to renovations on the 4th floor of the Downtown facility. The City's investment of capital funding will obligate the recipient organization to operate the facility and maintain equipment for the respective bonding term as a non-profit entity, open to and used and maintained for the benefit of the people of the City of New York for cultural, educational or artistic uses and/or related purposes approved by the City.

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 6 - Investments

Investments, which are all classified as Level 1 in the fair value hierarchy, consist of the following:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Cash and money funds	\$ 515,726	\$ 515,726	\$ 606,579	\$ 606,579
Certificates of deposit	59,146	59,146	57,979	57,979
Exchange traded funds:				
Stock	1,475,038	1,418,131	1,436,060	1,437,088
Bonds	290,369	293,529	286,273	286,280
Total	<u>\$2,340,279</u>	<u>\$2,286,532</u>	<u>\$2,386,891</u>	<u>\$2,387,926</u>

Net investment income consists of:

	2016	2015
Interest and dividends	\$39,399	\$39,020
Unrealized gain (loss)	(54,782)	1,035
Total Investment Income	<u>\$15,383</u>	<u>\$40,055</u>
Allocated to:		
Unrestricted	\$ 1,474	\$ 1,957
Temporarily restricted	13,673	36,858
Permanently restricted	(30,530)	1,240
	<u>\$15,383</u>	<u>\$40,055</u>

Note 7 - Notes Payable

a - The Organization has a revolving line of credit agreement in the amount of \$1,500,000. The due date for the line was extended to July 1, 2017. Interest on any borrowings is due monthly at the U.S. Prime Rate minus .75 percentage points. This line is secured with a mortgage on the Organization's building. During the year ended June 30, 2016, \$300,000 was borrowed and repaid. Expense associated with the closing costs are included in prepaid expenses and are being amortized over the term of the line of credit.

b - At June 30, 2016 and 2015, the Organization also has an interest free loan with the landlord of the Downtown facility. The loan is being repaid as additional rent in monthly installments. The outstanding balance at June 30, 2016 and 2015 was \$27,493 and \$30,932, respectively.

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 8 - Commitments and Contingencies

- a - The Organization leases various spaces for its scene shop, production department and the Downtown facility (where available space is rented to outside organizations under the management of Playwrights Rehearsal Studios). Occupancy costs for the above leases and outside rehearsal space for the years ended June 30, 2016 and 2015 amounted to \$1,193,550 and \$1,120,761, respectively.

Minimum rental commitments for all properties are as follows:

	<u>440 Lafayette</u>	<u>Other</u>	<u>Total</u>
<u>Year Ending June 30,</u>			
2017	\$ 952,366	\$118,473	\$1,070,839
2018	980,937	101,265	1,082,202
2019	1,105,937	98,832	1,204,769
2020	1,139,115	101,800	1,240,915
2021	1,173,289	104,860	1,278,149
Thereafter, through June 30, 2024	3,735,313	431,678	4,166,991

- b - The Organization received funds from The Economic Development Corporation (EDC) to help pay for construction costs related to the West 42nd Street building. As a condition of accepting these funds, through 2033, the Organization must use the West 42nd Street building for production, rehearsal and presentation to the public of one or more of the performing arts, for administrative tasks related to such activities, and for such other incidental purposes as are consistent with the Organization's continuing qualification as a 501(c)(3) entity.
- c - Government supported projects are subject to audit by the granting agency.

Note 9 - Concentration of Credit Risk

The Organization maintains the majority of its cash and cash equivalent balances in one of the largest financial institutions located in New York, New York. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000.

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 10 - Campaign

In October 2015, the Organization launched a \$15 million campaign to raise Artistic Reserve and Capital funds. The Artistic Reserve Fund supports new and expanded artistic activities and audience-focused programs. The Capital Fund supports improvements to the Organization's two facilities: West 42nd Street building (which houses the Organization's two theaters, rehearsal studios, and staff); and the Downtown facility (which houses the Organization's theater school, resident company program and rehearsal spaces serving the downtown community). Campaign funds which are not restricted by the donor are restricted by the Board of Trustees. The Board of Trustees controls and authorizes the use of these funds.

Note 11 - Operation of Ticket Central

The following is a capsulized statement of revenue, expenses and public support for Ticket Central for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Earned revenue	\$1,015,720	\$1,094,429
Expenses	<u>(793,938)</u>	<u>(791,976)</u>
Excess of Revenue Over Expenses	<u>\$ 221,782</u>	<u>\$ 302,453</u>

Note 12 - Pension Plans

- a - The Organization sponsors a 403(b) retirement plan. Beginning January 1, 2016, the plan provides for the Organization to match eligible employees' contributions up to 2% of their compensation. During the year ended June 30, 2016, the Organization's total contribution to the plan was \$23,510.
- b - The Organization contributes to various multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:
- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
 - If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 12 - Pension Plans (continued)

b - (continued)

- If the Organization chooses to stop participating in some of its multiemployer plans, the Organization may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Organization's participation in these plans is summarized below, including additional information for individually significant plans. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. The most recent Pension Protection Act (PPA) zone status available in 2016 and 2015 is for the plan's year-end at December 31, 2015 and December 31, 2014, respectively. The zone status is based on information that the Organization received from each plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration dates of the collective-bargaining agreements to which the plans are subject, as applicable.

<u>Pension Fund</u>	<u>EIN/Pension Plan Number</u>	<u>Pension Protection Act Zone Status</u>		<u>FIP/RP Status Pending/Implemented</u>	<u>Contributions of the Organization</u>		<u>Surcharge Imposed</u>	<u>Expiration Date of Collective Bargaining Agreement</u>
		<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>		
Society of Stage Directors and Choreographers League Pension Fund	13-6634482/001	Yellow	Yellow	Implemented	\$10,763	\$ 9,957	No	June 30, 2019
Equity-League Pension Trust Fund (Actors and Stage Managers)	13-6696817/001	Green	Green	N/A	31,474	28,736	No	November 6, 2016
United Scenic Artists Local 823 Pension Fund	13-1982707/001	Green	Green	N/A	7,500	7,320	No	N/A
American Federation of Musicians and Employers' Pension Fund	51-6120204/001	Red	Red	Implemented	<u>1,165</u>	<u>2,912</u>	Yes	August 15, 2018
					<u>\$50,902</u>	<u>\$48,925</u>		

None of the Organization's contributions to the plans listed above are greater than 5% of the total plan contributions.

PLAYWRIGHTS HORIZONS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 13 - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

Total expenses by functional classification for fiscal year 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Operating expenses per the Statements of Activities	\$11,181,233	\$10,137,551
Depreciation	840,316	852,463
Interest and amortization of financing costs	<u>15,087</u>	<u>13,984</u>
	<u>\$12,036,636</u>	<u>\$11,003,998</u>
 Program Services		
Productions and play development	\$ 6,295,094	\$ 5,639,579
Ticket Central	830,708	831,527
Theater School	1,895,927	1,817,155
Playwrights Rehearsal Studios	<u>759,124</u>	<u>749,353</u>
Total Program Services	<u>9,780,853</u>	<u>9,037,614</u>
 Supporting Services		
Management and general	1,354,266	1,081,331
Fundraising	<u>901,517</u>	<u>885,053</u>
Total Supporting Services	<u>2,255,783</u>	<u>1,966,384</u>
 Total Expenses	<u>\$12,036,636</u>	<u>\$11,003,998</u>

SUPPLEMENTARY INFORMATION



LUTZ AND CARR

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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Trustees of
Playwrights Horizons, Inc.

We have audited the financial statements of Playwrights Horizons, Inc. as of and for the years ended June 30, 2016 and 2015, and our report thereon dated December 14, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended June 30, 2016 with comparative totals for 2015 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 audits 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.

Lutz + Carr, LLP

New York, New York
December 14, 2016

PLAYWRIGHTS HORIZONS, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016 WITH COMPARATIVE TOTALS FOR 2015

	Program Services				Supporting Services			2016	2015	
	Productions and Play Development	Ticket Central	Theater School	Playwrights Rehearsal Studios	Total	Management and General	Fundraising	Total	Total Expenses	
Salaries	\$ 2,427,396	\$401,822	\$ 780,175	\$ 192,091	\$3,801,484	\$ 508,761	\$ 551,809	\$1,060,570	\$ 4,862,054	\$ 4,393,608
Payroll taxes and benefits	625,237	81,809	115,976	29,900	852,922	89,153	91,024	180,177	1,033,099	931,258
Total Salaries, Payroll Taxes and Benefits	3,052,633	483,631	896,151	221,991	4,654,406	597,914	642,833	1,240,747	5,895,153	5,324,866
Professional fees	49,638	35,462	9,988	-	95,088	282,956	34,461	317,417	412,505	379,279
Fees and royalties	853,507	52,728	179,853	-	1,086,088	-	-	-	1,086,088	960,839
Occupancy costs	260,080	1,435	698,470	469,662	1,429,647	157,328	3,342	160,670	1,590,317	1,489,301
Physical production	457,538	-	26,712	-	484,250	-	-	-	484,250	411,950
Advertising and promotion	423,501	179	794	-	424,474	2,099	8,689	10,788	435,262	289,116
Printing and postage	58,839	1,171	161	-	60,171	7,428	18,086	25,514	85,685	67,357
Ticket printing, services and commissions	64,235	166,879	-	12,469	243,583	1,047	13,280	14,327	257,910	290,744
Equipment rental, maintenance and purchase	90,517	2,578	26,047	34,985	154,127	102,161	21,473	123,634	277,761	310,606
Supplies	4,252	1,118	3,932	684	9,986	8,714	1,352	10,066	20,052	14,644
Postage, shipping, messengers and trucking	71,636	1,819	758	33	74,246	2,821	9,012	11,833	86,079	86,053
Telephone	18,472	25,126	6,210	1,552	51,360	9,674	3,982	13,656	65,016	61,734
Travel, meals and lodging	56,848	15,173	3,541	110	75,672	10,575	2,711	13,286	88,958	56,906
Hospitality	58,681	74	12,394	389	71,538	2,149	1,463	3,612	75,150	76,308
Insurance	28,030	4,672	4,672	2,336	39,710	53,070	654	53,724	93,434	93,978
Dues and subscriptions	7,510	-	602	125	8,237	18,273	1,624	19,897	28,134	24,955
Indirect benefit/special event expense	2,536	-	-	-	2,536	-	70,796	70,796	73,332	78,365
Show recordings	1,750	-	2,500	-	4,250	-	-	-	4,250	-
Miscellaneous	54,378	1,891	5,833	-	62,102	7,138	52,657	59,795	121,897	120,550
Total expenses before depreciation	5,614,581	793,936	1,878,618	744,336	9,031,471	1,263,347	886,415	2,149,762	11,181,233	10,137,551
Depreciation	680,513	36,772	17,309	14,788	749,382	75,832	15,102	90,934	840,316	852,463
Interest and amortization of financing costs	-	-	-	-	-	15,087	-	15,087	15,087	13,984
Total Expenses, 2016	<u>\$ 6,295,094</u>	<u>\$830,708</u>	<u>\$1,895,927</u>	<u>\$ 759,124</u>	<u>\$9,780,853</u>	<u>\$ 1,354,266</u>	<u>\$ 901,517</u>	<u>\$2,255,783</u>	<u>\$12,036,636</u>	
Total Expenses, 2015	<u>\$ 5,639,579</u>	<u>\$831,527</u>	<u>\$1,817,155</u>	<u>\$ 749,353</u>	<u>\$9,037,614</u>	<u>\$ 1,081,331</u>	<u>\$ 885,053</u>	<u>\$1,966,384</u>		<u>\$11,003,998</u>

See independent auditors' report on supplementary information.