

PLEASE TOUCH MUSEUM
FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

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Independent Auditor's Report

Board of Directors
Please Touch Museum
Philadelphia, PA

We have audited the accompanying financial statements of Please Touch Museum, which comprise the statements of financial position as of September 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.

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. Those standards require that we plan and perform the audit 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 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 Please Touch Museum as of September 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Isdaner & Company, LLC

December 22, 2016

PLEASE TOUCH MUSEUM
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2016 AND 2015

ASSETS

	2016	2015
Current assets:		
Cash and cash equivalents	\$ 2,909,813	\$ 2,682,520
Marketable securities	1,440,227	2,217,936
Grants and contributions receivable	891,248	1,168,500
Other current assets	202,641	367,095
Total current assets	5,443,929	6,436,051
Grants and contributions receivable after one year	781,148	99,659
Property, equipment, and exhibits, net	28,994,129	30,000,000
Cash held in escrow	1,275,429	7,594,599
Deferred financing costs	-	583,780
Total assets	\$36,494,635	\$44,714,089

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 757,418	\$ 905,884
Current portion of capital lease obligation	15,210	-
Total current liabilities	772,628	905,884
Long-term portion of capital lease obligation	17,744	-
Liabilities subject to compromise:		
Bonds payable	-	59,635,970
Accrued interest	-	3,265,690
Capital lease obligation	-	48,164
Accounts payable and accrued expenses	-	773,582
	-	63,723,406
Total liabilities	790,372	64,629,290
Net assets (deficit):		
Unrestricted	32,141,028	(21,495,285)
Temporarily restricted	2,131,151	148,000
Permanently restricted	1,432,084	1,432,084
	35,704,263	(19,915,201)
Total liabilities and net assets	\$36,494,635	\$44,714,089

The accompanying notes are an integral part of these statements.

PLEASE TOUCH MUSEUM
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016			2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support:								
Museum revenue:								
Admissions	\$ 3,803,652	\$ -	\$ -	\$ 3,803,652	\$ 3,924,517	\$ -	\$ -	\$ 3,924,517
Memberships	1,168,114	-	-	1,168,114	1,178,049	-	-	1,178,049
Fees for special events	813,731	-	-	813,731	782,854	-	-	782,854
Museum store receipts	445,804	-	-	445,804	524,699	-	-	524,699
External services	31,130	-	-	31,130	47,179	-	-	47,179
Investment income	117,397	-	-	117,397	345,447	-	-	345,447
Net depreciation of marketable securities	(6,059)	-	-	(6,059)	(332,111)	-	-	(332,111)
Donated goods and services	5,385	-	-	5,385	70,205	-	-	70,205
Grants and contributions	6,918,143	2,050,151	-	8,968,294	1,558,661	80,000	-	1,638,661
Net assets released from restrictions	67,000	(67,000)	-	-	189,947	(189,947)	-	-
	<u>13,364,297</u>	<u>1,983,151</u>	<u>-</u>	<u>15,347,448</u>	<u>8,289,447</u>	<u>(109,947)</u>	<u>-</u>	<u>8,179,500</u>
Expenses:								
Program services	6,871,928	-	-	6,871,928	7,990,068	-	-	7,990,068
Management, marketing and general	2,231,750	-	-	2,231,750	2,746,907	-	-	2,746,907
Fundraising	575,065	-	-	575,065	625,920	-	-	625,920
	<u>9,678,743</u>	<u>-</u>	<u>-</u>	<u>9,678,743</u>	<u>11,362,895</u>	<u>-</u>	<u>-</u>	<u>11,362,895</u>
Change in net assets before other items	3,685,554	1,983,151	-	5,668,705	(3,073,448)	(109,947)	-	(3,183,395)
Reorganization items	991,155	-	-	991,155	1,467,673	-	-	1,467,673
Interest expense	6,091	-	-	6,091	2,932,945	-	-	2,932,945
Asset impairment charge	-	-	-	-	23,205,608	-	-	23,205,608
Change in net assets before gain on extinguishment of debt	2,688,308	1,983,151	-	4,671,459	(30,679,674)	(109,947)	-	(30,789,621)
Gain on extinguishment of debt	50,948,005	-	-	50,948,005	-	-	-	-
Change in net assets	53,636,313	1,983,151	-	55,619,464	(30,679,674)	(109,947)	-	(30,789,621)
Net assets (deficit) at beginning of year	(21,495,285)	148,000	1,432,084	(19,915,201)	9,184,389	257,947	1,432,084	10,874,420
Net assets (deficit) at end of year	<u>\$32,141,028</u>	<u>\$2,131,151</u>	<u>\$1,432,084</u>	<u>\$35,704,263</u>	<u>(\$21,495,285)</u>	<u>\$148,000</u>	<u>\$1,432,084</u>	<u>(\$19,915,201)</u>

The accompanying notes are an integral part of these statements.

PLEASE TOUCH MUSEUM
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$55,619,464	(\$30,789,621)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,908,078	3,495,519
Amortization of deferred financing costs	-	49,088
Amortization of bond premium	-	(85,994)
Asset impairment charge	-	23,205,608
Gain on extinguishment of debt	(50,948,005)	-
Net depreciation of marketable securities	6,059	335,973
Reorganization items	991,155	1,467,673
(Increase) decrease in assets:		
Grants and contributions receivable	(404,237)	(968,211)
Other current assets	164,454	14,822
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(984,599)	3,943,151
Net cash provided by operating activities before reorganization items	6,352,369	668,008
Cash effect of reorganization items	(991,155)	(1,467,673)
Net cash provided by (used in) operating activities	<u>5,361,214</u>	<u>(799,665)</u>
Cash flows from investing activities:		
Marketable securities purchased	(2,052,808)	(5,480,804)
Proceeds from sales of marketable securities	2,824,458	11,493,917
Additions to property, equipment and exhibits	(902,207)	(1,910,487)
Net (increase) decrease to escrow	6,319,170	(2,209,769)
Net cash provided by investing activities	<u>6,188,613</u>	<u>1,892,857</u>
Cash flows from financing activities:		
Repayment of capital lease obligation	(15,210)	(15,209)
Repayment of bonds payable and accrued interest	(11,307,324)	-
Net cash used in financing activities	<u>(11,322,534)</u>	<u>(15,209)</u>
Net increase in cash	227,293	1,077,983
Cash at beginning of year	<u>2,682,520</u>	<u>1,604,537</u>
Cash at end of year	<u>\$ 2,909,813</u>	<u>\$ 2,682,520</u>
Supplemental disclosure:		
Cash paid for interest	<u>\$ 6,091</u>	<u>\$ 2,221</u>

The accompanying notes are an integral part of these statements.

PLEASE TOUCH MUSEUM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

(1) SUMMARY OF ACCOUNTING POLICIES

Nature of Operations and Bankruptcy Proceedings

Please Touch Museum ("the Museum") is a Pennsylvania nonprofit corporation which develops and provides interactive learning opportunities and educational exhibits in a children's museum. In 2005 the Museum entered into an 80-year lease agreement (including option period), at a nominal rent, with the City of Philadelphia, for the use of Memorial Hall, a national historic landmark in Fairmount Park.

On September 11, 2015, the Museum filed a voluntary petition (the "Petition") for relief in the United States Bankruptcy Court, Eastern District of Pennsylvania under Chapter 11 of Title 11 of the U.S. Bankruptcy Code (the "Bankruptcy Court"). The Museum continued to operate its business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Code and orders of the Bankruptcy Court. On March 16, 2016, the Museum's Plan of Reorganization ("Plan") was formally confirmed by the Bankruptcy Court. The Plan became effective on March 31, 2016, at which time the Museum officially emerged from bankruptcy.

In accordance with the Plan, the Museum paid \$8,250,000 to the Trustee for the bondholders (Note 6). In addition, the bondholders received certain other Trustee-held escrow funds. The Museum recorded a gain of approximately \$51 million on the extinguishment of the bonds and accrued interest.

The Plan provided for the full payment of unsecured creditors over a two-year period with interest of 4% per annum. Alternatively, unsecured creditors could elect to receive 90% of their allowed claims on the Plan effective date in full satisfaction of such claims. All executory contracts have been assumed.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (FASB ASC) 852, which is applicable to companies in Chapter 11, generally does not change the manner in which financial statements are prepared. However, it does require that the financial statements for periods subsequent to the filing of a Chapter 11 case distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, realized gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the statements of activities. The statement of financial position must distinguish pre-petition liabilities subject to compromise from both those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. Liabilities that may be affected by a plan of reorganization must be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. The Museum incurred professional fees in connection with reorganization negotiations of \$991,155 and \$1,467,673 in 2016 and 2015, respectively, which are reported separately in the statement of activities and statement of cash flows.

PLEASE TOUCH MUSEUM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

(1) SUMMARY OF ACCOUNTING POLICIES – Continued

Cash and Cash Equivalents

The Museum considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are primarily held in operating accounts at major financial institutions and also in money market mutual funds, in which the Museum is exposed to market and credit risk.

Marketable Securities

Investments in marketable securities are reported at fair value. Realized and unrealized gains and losses are included in the statement of changes in net assets.

Grants and Contributions

Net assets are classified as permanently restricted, temporarily restricted, or unrestricted, depending upon the existence and nature of donor-imposed stipulations. Gifts of cash and other assets, including unconditional promises to give, are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Museum has elected to report, as unrestricted support, donor-restricted contributions whose restrictions are met in the same reporting period.

At September 30, 2016, 48% of grants and contributions receivable was due from one donor.

The Museum uses the allowance method to determine uncollectible contributions receivable. The allowance is based on historical experience, current economic conditions and management's analysis of outstanding contributions receivable. Management has determined that no allowance was necessary as of September 30, 2016 or 2015.

Property, Equipment and Exhibits

Property, equipment and exhibits are stated at cost as determined by either the purchase price, or, for donated assets, their appraised value at the time of the donation. Depreciation is provided for by the straight-line method over the estimated useful lives of the assets, as follows:

Real estate interest and improvements	35 years
Equipment and fixtures	3 - 5 years
Exhibits	7 years

PLEASE TOUCH MUSEUM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

(1) SUMMARY OF ACCOUNTING POLICIES – Continued

Asset Impairment Charge

In fiscal 2015 the Museum reassessed the recoverability of the cost of its real estate interest and improvements based on cash flow projections and determined that such assets were impaired. Based upon this assessment, the Museum recorded an asset impairment charge of \$23.2 million to reduce the book value of such long-lived assets to their estimated fair values.

Advertising

The Museum expenses advertising cost as incurred. For the years ended September 30, 2016 and 2015 marketing and advertising expenses were \$377,048 and \$330,168, respectively.

Income Taxes

The Museum is exempt from tax under Section 501(c)(3) of the Internal Revenue Code. Pursuant to FASB Accounting Standards Codification Topic 740, the Museum recognizes tax benefits only if it is more likely than not that a tax position (including the Museum's assertion that its income is exempt from tax) will be sustained upon examination. No liability for uncertain tax positions was recorded as of September 30, 2016 or 2015.

Subsequent Events

Management has performed an evaluation of subsequent events through December 22, 2016, which is the date the Museum's financial statements were issued.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain previously reported financial information has been reclassified to conform to the current year's presentation.

Certain costs, primarily utilities and maintenance, previously classified as management and general expenses in the statement of activities, have been reallocated among program services, management, marketing and general, and fundraising expenses, primarily based upon the usage of physical space. Depreciation and amortization, previously reported separately, have been reallocated in a similar manner. In addition, marketing and advertising costs previously included in the caption "fundraising and marketing" in the statement of activities are now included in "management, marketing and general" expenses. These reclassifications provide an improved reporting of expenses based on their ultimate function.

PLEASE TOUCH MUSEUM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

(2) MARKETABLE SECURITIES

Marketable securities were comprised as follows:

	2016	2015
Mutual funds:		
Fixed-income oriented	\$ 739,491	\$ 721,673
Equity oriented	461,260	1,168,813
Common stock	187,959	299,292
Exchange traded funds	51,517	28,158
	\$1,440,227	\$2,217,936

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices for identical instruments in active markets;

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3: Prices or valuation techniques requiring inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The fair value of marketable securities, including common stock, mutual funds and exchange-traded funds, are based upon quoted prices in active markets. These investments have been classified within Level 1 of the valuation hierarchy.

Fair values of assets measured on a recurring basis at September 30, 2016 and 2015 were as follows:

	2016			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities	\$1,440,227	\$1,440,227	\$ -	\$ -
	2015			
Marketable securities	\$2,217,936	\$2,217,936	\$ -	\$ -

PLEASE TOUCH MUSEUM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

(3) GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable were comprised as follows:

	<u>2016</u>	<u>2015</u>
Due in less than one year	\$891,248	\$1,168,500
Due in one to five years	795,000	102,000
	<u>1,686,248</u>	<u>1,270,500</u>
Less discount to present value	(13,852)	(2,341)
	<u>\$1,672,396</u>	<u>\$1,268,159</u>

(4) PROPERTY, EQUIPMENT AND EXHIBITS

Property, equipment and exhibits consisted of the following:

	<u>2016</u>	<u>2015</u>
Real estate interest and improvements	\$63,794,644	\$62,953,328
Equipment and fixtures	1,982,135	1,921,245
Exhibits	11,843,415	11,843,415
	<u>77,620,194</u>	<u>76,717,988</u>
Less accumulated depreciation	(48,626,065)	(46,717,988)
	<u>\$28,994,129</u>	<u>\$30,000,000</u>

(5) CASH HELD IN ESCROW

Cash held in escrow consisted of the following:

	<u>2016</u>	<u>2015</u>
Bondholder settlement fund	\$ -	\$2,500,000
Debt service fund	-	307,112
Reserve for capital repairs and replacements	1,275,429	1,730,925
Bond collateral fund	-	3,056,562
	<u>\$1,275,429</u>	<u>\$7,594,599</u>

Under the lease with the City of Philadelphia, the Museum is required to deposit \$1.5 million into a capital repairs and replacements escrow every ten years for the term of the lease. A \$1.5 million deposit was made in 2013.

PLEASE TOUCH MUSEUM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

(6) BONDS PAYABLE

In 2007 the Philadelphia Authority for Industrial Development issued \$60 million of Revenue Bonds, Series of 2006 (the "Bonds"), in connection with a loan agreement with the Museum, collateralized by substantially all assets and revenues of the Museum. On September 11, 2015 the Museum filed a petition for relief under Chapter 11 of the bankruptcy code, as discussed in Note 1. The Museum's Plan of Reorganization was confirmed by the Bankruptcy Court and became effective on March 31, 2016, resulting in the impairment, settlement and discharge of bondholder claims. Accordingly, such debt is no longer outstanding.

(7) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes:

	2016	2015
Digital learning exhibit	\$ 786,453	\$ -
Floor restoration	20,000	-
Subsequent year operations	1,324,698	148,000
	\$2,131,151	\$148,000

(8) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets represent donor-restricted endowment gifts that are currently invested and participate in the Museum's investment pool. The Board of Directors of the Museum has interpreted state law as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds. Absent explicit donor stipulations to the contrary, amounts in excess of the portion classified as permanently restricted are classified as unrestricted net assets.

(9) RETIREMENT PLAN

The Museum contributes to a retirement plan for eligible employees under a contract with Teachers Insurance and Annuities Associates-College Retirement Equities Fund (TIAA-CREF). The Museum's contribution is 3.5% of salaries of eligible employees who qualify by contributing 1.5% of their compensation to the plan. Retirement plan expense was \$49,099 and \$59,587 in 2016 and 2015, respectively.

(10) RELATED PARTY TRANSACTIONS

The Museum incurred legal expenditures of \$113,033 in 2016 and \$272,871 in 2015 with a law firm, a partner of which is also a member of the Executive Committee of the Museum.

SUPPLEMENTARY INFORMATION

**PLEASE TOUCH MUSEUM
EXPENSES
YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Salaries	\$3,312,524	\$ 3,421,291
Payroll taxes and employee benefits	717,439	742,933
Education, programming and exhibits	457,218	336,019
Museum store expenses	261,385	262,098
Professional fees and affiliations	374,995	376,017
Donated goods and services	5,385	70,205
Insurance	273,021	275,850
Depreciation and amortization	1,908,078	3,544,607
Maintenance	1,073,371	1,096,727
Office administration	391,097	346,737
Marketing and advertising	377,048	330,168
Travel and entertainment	23,024	19,168
Printing	42,168	29,910
Utilities and telephone	461,990	500,465
Uncollectible pledges	-	10,700
	<u>\$9,678,743</u>	<u>\$11,362,895</u>

