

Please Touch Museum

Financial Statements
Years Ended September 30, 2021 and 2020



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PLEASE TOUCH MUSEUM

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INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
Please Touch Museum
Philadelphia, Pennsylvania**

We have audited the accompanying financial statements of Please Touch Museum (a nonprofit corporation), which comprise the statements of financial position as of September 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 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 the Please Touch Museum as of September 30, 2021 and 2020, 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.

BBD 2/28

**Philadelphia, Pennsylvania
March 14, 2022**

PLEASE TOUCH MUSEUM

STATEMENTS OF FINANCIAL POSITION

September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,637,009	\$ 984,365
Investments	2,013,672	1,473,314
Receivables		
Grants and contributions	881,978	1,926,108
Other, net	327,605	15,061
Other current assets	<u>370,530</u>	<u>344,608</u>
Total current assets	6,230,794	4,743,456
GRANTS AND CONTRIBUTIONS RECEIVABLE AFTER ONE YEAR	658,289	1,131,897
PROPERTY, EQUIPMENT AND EXHIBITS, NET	26,529,507	27,112,546
INVESTMENTS, TO BE MAINTAINED INDEFINITELY	1,432,084	1,432,084
COLLECTION	-	-
CASH HELD IN ESCROW	<u>1,219,871</u>	<u>1,219,435</u>
Total assets	<u>\$ 36,070,545</u>	<u>\$ 35,639,418</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	\$ 700,000	\$ 700,000
Loans payable	111,375	719,135
Accounts payable and accrued expenses	461,945	613,573
Deferred revenue	<u>2,181,343</u>	<u>207,387</u>
Total current liabilities	3,454,663	2,240,095
LOANS PAYABLE AFTER ONE YEAR	<u>647,567</u>	<u>24,679</u>
Total liabilities	<u>4,102,230</u>	<u>2,264,774</u>
NET ASSETS		
Without donor restrictions		
Operating	27,399,765	27,995,626
Board designated	<u>305,561</u>	<u>190,475</u>
	27,705,326	28,186,101
With donor restrictions		
Subject to expenditure for specific purposes or periods	2,830,905	3,756,459
To be maintained in perpetuity	<u>1,432,084</u>	<u>1,432,084</u>
Total net assets	<u>31,968,315</u>	<u>33,374,644</u>
Total liabilities and net assets	<u>\$ 36,070,545</u>	<u>\$ 35,639,418</u>

See accompanying notes

PLEASE TOUCH MUSEUM

STATEMENTS OF ACTIVITIES

Years ended September 30, 2021 and 2020

	2021					2020				
	Without Donor Restrictions		With Restrictions			Without Donor Restrictions		With Restrictions		
	Operating	Board Designated	Purpose and Time Restrictions	To Be Maintained Indefinitely	Total	Operating	Board Designated	Purpose and Time Restrictions	To Be Maintained Indefinitely	Total
REVENUES AND SUPPORT										
Museum revenue										
Admissions	\$ 998,270	\$ -	\$ -	\$ -	\$ 998,270	\$ 1,532,591	\$ -	\$ -	\$ -	\$ 1,532,591
Memberships	288,207	-	-	-	288,207	743,713	-	-	-	743,713
Fees for special events	496,998	-	-	-	496,998	413,456	-	-	-	413,456
Museum store receipts	1,402	-	-	-	1,402	26,019	-	-	-	26,019
Interest and dividends	54,459	-	26,391	-	80,850	49,739	-	29,376	-	79,115
Net appreciation of investments, net of fees	233,146	-	256,868	-	490,014	42,639	-	54,806	-	97,445
Donated goods and services	-	-	-	-	-	23,190	-	-	-	23,190
Grants and contributions	1,086,173	-	556,333	-	1,642,506	478,024	-	3,028,618	-	3,506,642
Forgiveness of loans payable	718,814	-	-	-	718,814	-	-	-	-	-
Other revenue	122,732	-	-	-	122,732	-	-	-	-	-
Net assets released from restrictions										
Spending policy distribution	-	115,086	(115,086)	-	-	-	111,068	(111,068)	-	-
Satisfaction of purpose restrictions	1,650,060	-	(1,650,060)	-	-	1,752,139	-	(1,752,139)	-	-
Total revenues and support	<u>5,650,261</u>	<u>115,086</u>	<u>(925,554)</u>	<u>-</u>	<u>4,839,793</u>	<u>5,061,510</u>	<u>111,068</u>	<u>1,249,593</u>	<u>-</u>	<u>6,422,171</u>
EXPENSES										
Program services	4,784,435	-	-	-	4,784,435	5,340,289	-	-	-	5,340,289
Supporting services										
Management and general	1,051,194	-	-	-	1,051,194	1,030,599	-	-	-	1,030,599
Fundraising	410,493	-	-	-	410,493	424,069	-	-	-	424,069
Total expenses	<u>6,246,122</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,246,122</u>	<u>6,794,957</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,794,957</u>
CHANGE IN NET ASSETS	<u>(595,861)</u>	<u>115,086</u>	<u>(925,554)</u>	<u>-</u>	<u>(1,406,329)</u>	<u>(1,733,447)</u>	<u>111,068</u>	<u>1,249,593</u>	<u>-</u>	<u>(372,786)</u>
NET ASSETS										
Beginning of year	27,995,626	190,475	3,756,459	1,432,084	33,374,644	29,729,073	79,407	2,506,866	1,432,084	33,747,430
End of year	<u>\$ 27,399,765</u>	<u>\$ 305,561</u>	<u>\$ 2,830,905</u>	<u>\$ 1,432,084</u>	<u>\$ 31,968,315</u>	<u>\$ 27,995,626</u>	<u>\$ 190,475</u>	<u>\$ 3,756,459</u>	<u>\$ 1,432,084</u>	<u>\$ 33,374,644</u>

See accompanying notes

PLEASE TOUCH MUSEUM

STATEMENTS OF FUNCTIONAL EXPENSES

Years ended September 30, 2021 and 2020

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	2021				2020			
	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 1,604,536	\$ 576,970	\$ 260,997	\$ 2,442,503	\$ 1,715,366	\$ 538,704	\$ 259,627	\$ 2,513,697
Payroll taxes and employee benefits	252,868	90,928	41,132	384,928	355,724	112,135	55,385	523,244
Education, programming and exhibits	203,308	-	-	203,308	331,309	-	-	331,309
Professional fees and affiliations	119,082	55,161	84,619	258,862	127,233	71,169	38,886	237,288
Donated goods and services	-	-	-	-	-	-	23,190	23,190
Insurance	186,296	18,285	-	204,581	239,342	23,491	-	262,833
Bad debt expense	-	39,591	-	39,591	-	-	-	-
Depreciation	1,388,842	128,159	13,238	1,530,239	1,262,652	116,533	12,036	1,391,221
Maintenance	468,722	33,240	1,915	503,877	581,761	41,259	2,375	625,395
Office administration	151,867	82,849	5,907	240,623	194,229	84,538	18,607	297,374
Marketing and advertising	84,392	-	941	85,333	167,765	-	3,020	170,785
Travel and entertainment	1,855	3,678	540	6,073	8,118	10,595	987	19,700
Printing	27,563	1,405	-	28,968	41,211	9,795	8,667	59,673
Utilities and telephone	295,104	20,928	1,204	317,236	315,579	22,380	1,289	339,248
	<u>\$ 4,784,435</u>	<u>\$ 1,051,194</u>	<u>\$ 410,493</u>	<u>\$ 6,246,122</u>	<u>\$ 5,340,289</u>	<u>\$ 1,030,599</u>	<u>\$ 424,069</u>	<u>\$ 6,794,957</u>

See accompanying notes

PLEASE TOUCH MUSEUM

STATEMENTS OF CASH FLOWS

September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ (1,406,329)	\$ (372,786)
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Depreciation	1,530,239	1,391,221
Net appreciation of investments	(490,014)	(97,445)
Forgiveness of loans payable	(718,814)	-
Bad debt expense	(39,591)	-
(Increase) decrease in		
Grants and contributions receivable	1,517,738	(1,138,041)
Other receivables	(272,953)	47,065
Other current assets	(25,922)	(38,867)
Increase (decrease) in		
Accounts payable and accrued expenses	(151,628)	13,434
Deferred revenue	1,973,956	(60,696)
Net cash provided by (used for) operating activities	<u>1,916,682</u>	<u>(256,115)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(706,065)	(551,529)
Proceeds from sales of investments	655,721	221,820
Additions to property, equipment and exhibits	<u>(947,200)</u>	<u>(1,623,788)</u>
Net cash used for investing activities	<u>(997,544)</u>	<u>(1,953,497)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from line of credit	-	700,000
Proceeds from loans payable	<u>733,942</u>	<u>743,814</u>
Net cash provided by financing activities	<u>733,942</u>	<u>1,443,814</u>
Net change in cash and cash equivalents	1,653,080	(765,798)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,203,800</u>	<u>2,969,598</u>
End of year	<u>\$ 3,856,880</u>	<u>\$ 2,203,800</u>

CASH AND RESTRICTED CASH

The following table provides a reconciliation of cash and restricted deposits reported within the statements of financial position to the total of such amounts shown in these statements of cash flows:

Cash	\$ 2,637,009	\$ 984,365
Escrowed cash	<u>1,219,871</u>	<u>1,219,435</u>
	<u>\$ 3,856,880</u>	<u>\$ 2,203,800</u>

See accompanying notes

PLEASE TOUCH MUSEUM

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

(1) NATURE OF OPERATIONS

Please Touch Museum (the "**Museum**") is a Pennsylvania 501(c)(3) nonprofit organization established in 1976; operating at Memorial Hall in Fairmount Park, a National Historic site built in 1876 for the Nation's Centennial celebration.

Please Touch Museum's mission is to "Change a child's life as they discover the power of learning through play." Our Museum is where lifelong learning begins, curiosity is encouraged, and every child is always welcome. Underpinning this mission is a promise, "To be a leader in 21st century children's museums as a key resource of learning through play, and expand our reach and impact in the Philadelphia region and beyond." To fulfill this promise, Please Touch Museum will continue to be inclusive, open and accessible to all communities.

Our interactive exhibits, programs and special events are designed to focus on creativity, collaboration, communication and critical thinking as core elements. With this, children discover, learn and play and as a result develop the intellectual, social and emotional skills they need to succeed in school and life.

Due to the COVID-19 pandemic, the Museum was closed from March 14, 2020 through April 7, 2021. The Museum opened on April 8, 2021 with a schedule of 4 days a week instead of 7 days and with limitations on capacity. During the summer the Museum increased the schedule to 5 days a week with continued limited capacity.

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

The Museum reports information regarding its financial position and activities according to the following classes of net assets:

Without donor restrictions

Net assets that are not subject to donor-imposed restrictions.

This category also includes board designated net assets which include distributions from endowment that require board approval to be spent.

With donor restrictions

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of the Museum and/or the passage of time. When a restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Also included in this category are net assets subject to donor-imposed restrictions that require the net assets to be maintained indefinitely while permitting the Museum to expend the income generated in accordance with the provisions of the contribution.

Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America ("**GAAP**"), management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PLEASE TOUCH MUSEUM

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Museum. Unobservable inputs reflect the Museum's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Museum has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the Museum's own assumptions.

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.

Investments and Investment Income

Investments in debt and equity securities with readily determinable fair values are reported at fair value as determined by quoted market prices with gains and losses included in the statements of activities. Dividend and interest income is recorded as earned. Restricted investment income whose restrictions are satisfied in the same period are reported as unrestricted. Donated investments are recorded at fair value at the date of receipt.

The Museum invests in a professionally-managed portfolio that contains various types of securities (**See Note 4**). Such investments are exposed to market and credit risks. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in the near term would materially affect investment balances and the amounts reported in the financial statements.

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

Depreciation expense for the years ended September 30, 2021 and 2020 was \$1,530,239 and \$1,391,221 respectively.

PLEASE TOUCH MUSEUM

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

Collections

The collection, which has been acquired through purchases and contributions since the Museum's inception, is not recognized as an asset on the statements of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired, or as net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

The core of the Museum's collection is the Contemporary Toy Collection (toys post-1945 through present) which showcases changing ideas of play, childhood, education, gender and socialization and other topics of importance and relevance to 21st century families. The Museum collects, catalogs, exhibits and borrows only those objects for which it is able to care, store and exhibit in a manner consistent with its educational purpose and with generally accepted museum practice. Collection management policies have been adopted to ensure that Please Touch Museum carries out its responsibilities for its collections in a manner consistent with its mission and its responsibilities as a non-profit museum accredited by the American Association of Museums.

Cash Held in Escrow

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 2012. The balance in this escrow was \$1,219,871 and \$1,219,435 as of September 30, 2021 and 2020, respectively.

Revenue Recognition

The Museum recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Contributions and grants are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the absence or existence and nature of any donor restrictions. Donor-restricted contributions and grants whose restrictions are satisfied in the same period are reported as net assets without donor restrictions.

Admissions revenue is recognized in the period in which the Museum visit took place. Membership fees are recognized when received. Fees for special events are recognized in the period in which the event took place. Fees for future special events are included in deferred revenue on the statements of financial position.

Amounts received from cost-reimbursement grants and contracts which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses are recognized as revenue when the Museum has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statements of financial position. The Museum received a Shuttered Venue Operators Grant of \$1,992,509 that has not been recognized as revenue at September 30, 2021 because qualifying expenditures have not yet been incurred.

PLEASE TOUCH MUSEUM

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

Other Accounts Receivable

Other accounts receivable are stated at the amount management expects to collect from outstanding balances. One customer represents 87.7% of the other accounts receivable balance owed to the Museum for the year ended September 30, 2021. The Museum uses the allowance method to determine uncollectible other accounts receivable. The allowance is based on historical experience, current economic conditions and management's analysis of outstanding balances and has recorded an allowance of \$39,591 as of September 30, 2021. No allowance was recorded as of September 30, 2020.

Advertising

The Museum expenses advertising costs as incurred. For the years ended September 30, 2021 and 2020, marketing and advertising expenses were \$85,333 and \$170,785, respectively.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been presented on a functional basis in the statements of activities. The statements of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited.

The financial statements have certain categories of expenses that are attributed to more than one program or supporting function, therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated on the basis of estimates of time and effort include certain salaries and wages and related benefits and payroll taxes. Expenses that are allocated based on estimates of square footage include depreciation, maintenance, and utilities and telephone.

Income Tax Status

The Museum is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Museum's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Museum qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

GAAP requires entities to evaluate, measure, recognize and disclose any uncertain tax positions. GAAP prescribes a minimum threshold that a tax position is required to meet in order to be recognized in the financial statements. The Museum believes that it had no uncertain tax positions as defined in GAAP.

Concentration of Credit Risk

Financial instruments which potentially subject the Museum to concentration of credit risk are cash and cash equivalents, grants and contributions receivable and other accounts receivable. The Museum maintains its cash at various financial institutions. At times, such deposits may exceed federally-insured limits.

At September 30, 2021, 65% of grants and contributions receivable was due from one donor. At September 30, 2020, 79% of grants and contributions receivable was due from four donors.

Reclassifications

Certain amounts have been reclassified in the 2020 financial statements to conform to the 2021 presentation.

PLEASE TOUCH MUSEUM

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

(3) LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions that allow their use during the 12 months after the statements of financial position date, comprise the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,637,009	\$ 984,365
Receivables	1,867,872	3,073,066
Investments	<u>3,445,756</u>	<u>2,905,398</u>
Total financial assets	7,950,637	6,962,829
Less: financial assets not available for general operations		
within one year		
Subject to expenditure for specific purposes or periods	(2,830,905)	(3,756,459)
To be maintained in perpetuity	(1,432,084)	(1,432,084)
Board designated net assets	<u>(305,561)</u>	<u>(190,475)</u>
Total financial assets available within one year	<u>\$ 3,382,087</u>	<u>\$ 1,583,811</u>

Liquidity Management

The Museum manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Museum has various sources of liquidity at its disposal, including cash and cash equivalents and investments.

(4) INVESTMENTS

Investments, as of September 30, were comprised as follows:

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 386,606	\$ 290,892
Mutual funds		
Fixed-income	150,357	133,031
Equity	314,176	484,906
Exchange-traded funds		
Fixed-income	774,944	699,728
Equity	<u>1,819,673</u>	<u>1,296,841</u>
	<u>\$ 3,445,756</u>	<u>\$ 2,905,398</u>

The fair value of investments are based upon quoted prices in active markets. These investments have been classified within Level 1 of the valuation hierarchy.

PLEASE TOUCH MUSEUM

NOTES TO FINANCIAL STATEMENTS

September 30, 2021 and 2020

(5) GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable were comprised as follows:

	<u>2021</u>	<u>2020</u>
Due in less than one year	\$ 881,978	\$ 1,926,108
Due in one to five years	<u>664,937</u>	<u>1,138,545</u>
	1,546,915	3,064,653
Less discount to present value	<u>(6,648)</u>	<u>(6,648)</u>
	<u>\$ 1,540,267</u>	<u>\$ 3,058,005</u>

The Museum uses the allowance method to determine uncollectible grants and 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, 2021 and 2020.

(6) PROPERTY, EQUIPMENT AND EXHIBITS

Property, equipment and exhibits consisted of the following at September 30:

	<u>2021</u>	<u>2020</u>
Real estate interest and improvements	\$ 41,062,122	\$ 40,999,788
Equipment and fixtures	2,754,349	2,702,406
Exhibits	<u>14,585,320</u>	<u>13,752,397</u>
	58,401,791	57,454,591
Less accumulated depreciation	<u>(31,872,284)</u>	<u>(30,342,045)</u>
	<u>\$ 26,529,507</u>	<u>\$ 27,112,546</u>

(7) LINE OF CREDIT

In April 2020, the Museum opened a \$700,000 line of credit which bears interest at the London Interbank Offered Rate plus 135 basis points and expires in February 2022. The interest rate on the line of credit is 2.5% at September 30, 2021. Advances under this credit line are secured by the Museum's investments. The line of credit has advances outstanding of \$700,000 at September 30, 2021 and 2020.

(8) LOANS PAYABLE

On April 13, 2020, The Museum received loan proceeds in the amount of \$718,814 under the Paycheck Protection Program ("**PPP**"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("**Cares Act**"), the PPP provides for loans to qualifying businesses. PPP loans and accrued interest are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. On July 8, 2021, 100% of the first PPP loan payable was forgiven in its entirety.

On February 4, 2021 the Museum received a second PPP loan in the amount of \$733,942. To the extent that the Museum is not granted forgiveness, the Museum will be required to pay interest on the PPP loan at a rate of 1% per annum. If the application for forgiveness is not made within 10 months of the end of the covered period, payments of principal and interest will be required through the maturity date, which is five years from the origination of the note. The terms of the loan provide for customary events of default including payment defaults, breach of representation of warranties and insolvency events. The PPP loan may be accelerated upon the occurrence of a default event. Management expects to apply for and receive forgiveness of the second PPP loan during 2022.

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In July 2020, the Museum received an unsecured loan in the amount of \$25,000 from the Small Business Administration (SBA) Economic Injury Disaster Loan program. The loan is due in June 2050 and bears interest at a rate of 2.75% per annum. The note had an outstanding balance of \$25,000 at September 30, 2021 and 2020.

Annual principal payments required for the next five fiscal years and thereafter are as follows:

Year ending September 30.

2022	\$ 111,375
2023	148,072
2024	148,072
2025	148,072
2026	148,072
Thereafter	<u>55,279</u>
	<u>\$ 758,942</u>

(9) NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes:

	<u>September 30,</u> <u>2020</u>	<u>Additions</u>	<u>Releases</u>	<u>September 30,</u> <u>2021</u>
Subject to expenditure for specific purposes or periods				
Floor restoration	\$1,048,625	\$ -	\$ (2,500)	\$1,046,125
Exhibit Sponsorship/Other	2,171,189	160,000	(1,259,621)	1,071,568
Available for future periods	<u>445,704</u>	<u>396,333</u>	<u>(387,939)</u>	<u>454,098</u>
	<u>3,665,518</u>	<u>556,333</u>	<u>(1,650,060)</u>	<u>2,571,791</u>
Endowments				
Subject to appropriation and expenditure when a specified event occurs:				
Excess endowment earnings available to support the programs, services and mission of the Museum	90,941	283,259	(115,086)	259,114
To be maintained indefinitely				
Endowment, with an historic dollar value of \$1,432,084	<u>1,432,084</u>	<u>-</u>	<u>-</u>	<u>1,432,084</u>
Total endowments	<u>1,523,025</u>	<u>283,259</u>	<u>(115,086)</u>	<u>1,691,198</u>
Total net assets with donor restrictions	<u>\$5,188,543</u>	<u>\$ 839,592</u>	<u>\$(1,765,146)</u>	<u>\$4,262,989</u>
	<u>September 30,</u> <u>2019</u>	<u>Additions</u>	<u>Releases</u>	<u>September 30,</u> <u>2020</u>
Net assets restricted for specific purposes or periods				
Digital learning exhibit	\$ 595,160	\$ 421,000	\$(1,016,160)	\$ -
Floor restoration	1,048,625	-	-	1,048,625
Exhibit Sponsorship/Other	613,464	2,173,168	(615,443)	2,171,189
Available for future periods	<u>131,790</u>	<u>434,450</u>	<u>(120,536)</u>	<u>445,704</u>
	<u>2,389,039</u>	<u>3,028,618</u>	<u>(1,752,139)</u>	<u>3,665,518</u>

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Endowments				
Subject to appropriation and expenditure when a specified event occurs:				
Excess endowment earnings available to support the programs, services and mission of the Museum	117,827	84,182	(111,068)	90,941
To be maintained indefinitely				
Endowment, with an historic dollar value of \$1,432,084	<u>1,432,084</u>	<u>-</u>	<u>-</u>	<u>1,432,084</u>
Total endowments	<u>1,549,911</u>	<u>84,182</u>	<u>(111,068)</u>	<u>1,523,025</u>
Total net assets with donor restrictions	<u>\$3,938,950</u>	<u>\$3,112,800</u>	<u>\$(1,863,207)</u>	<u>\$5,188,543</u>

(10) ENDOWMENT

The endowment consists of donor-restricted endowment gifts that are currently invested and participate in the Museum's investment pool. The funds were established to support its general operations.

Accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("**UPMIFA**"). The Museum is not subject to this guidance since Pennsylvania has not enacted a version of UPMIFA. The standard also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

In 2018, the Museum's Board of Directors adopted Commonwealth of Pennsylvania law and has interpreted this law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies net assets to be maintained indefinitely as (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 and at the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a relatively predictable and growing stream of annual distributions in support of the Museum while preserving the long-term, real purchasing power of its endowment assets.

The Museum can appropriate for distribution each year between 2% and 7% of its endowment fund's three-year average value. In establishing this policy, the Museum seeks to reduce the variability of the annual fund distributions by factoring past spending and portfolio asset values into its current spending policy, its target asset allocation, or both. The spending policy calculates the amount of money annually distributed from the permanently restricted endowment fund to support various programs. The current spending policy allows the Museum to distribute an amount equal to 7% of an average of the trailing twelve quarters of the fair value of the endowment fund.

For the years ended September 30, 2021 and 2020, the Museum's endowment net assets had the following activity:

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	<u>Year ended September 30, 2021</u>			
	<u>With Donor Restrictions</u>			
	<u>Board</u>	<u>Excess</u>	<u>To be</u>	
	<u>Designated</u>	<u>Endowment</u>	<u>Maintained</u>	<u>Total</u>
		<u>Earnings</u>	<u>Indefinitely</u>	
Endowment net assets, beginning of the year	\$ 190,475	\$ 90,941	\$ 1,432,084	\$ 1,713,500
Interest and dividends	-	26,391	-	26,391
Net appreciation of investments	-	256,868	-	256,868
Spending policy distribution	<u>115,086</u>	<u>(115,086)</u>	-	-
Endowment net assets, end of year	<u>\$305,561</u>	<u>\$ 259,114</u>	<u>\$ 1,432,084</u>	<u>\$ 1,996,759</u>

	<u>Year ended September 30, 2020</u>			
	<u>With Donor Restrictions</u>			
	<u>Board</u>	<u>Excess</u>	<u>To be</u>	
	<u>Designated</u>	<u>Endowment</u>	<u>Maintained</u>	<u>Total</u>
		<u>Earnings</u>	<u>Indefinitely</u>	
Endowment net assets, beginning of the year	\$ 79,407	\$ 117,827	\$ 1,432,084	\$ 1,629,318
Interest and dividends	-	29,376	-	29,376
Net appreciation of investments	-	54,806	-	54,806
Spending policy distribution	<u>111,068</u>	<u>(111,068)</u>	-	-
Endowment net assets, end of year	<u>\$190,475</u>	<u>\$ 90,941</u>	<u>\$ 1,432,084</u>	<u>\$ 1,713,500</u>

(11) RETIREMENT PLAN

The Museum contributes to a retirement plan for eligible employees under a contract with Massachusetts Mutual Life Insurance Company. The Museum makes a contribution on behalf of each eligible employee equal to 3.5% of the employee's compensation, provided the employee's elective deferral equals or exceeds 1% of the employee's compensation. Retirement plan expense was \$36,218 and \$50,150 in 2021 and 2020, respectively.

(12) COMMITMENTS

In 2005, the Museum entered into an 80-year lease agreement (including option period) with the City of Philadelphia for the use of Memorial Hall, a national historic landmark in Fairmount Park. The lease requires annual nominal rent for the lease term provided that the Museum uses Memorial Hall for the purposes described in Note 1.

Another requirement under this lease is that the Museum make required contributions into the Memorial Hall Trust which is included in cash held in escrow on the statements of financial position. The Museum was required to make a contribution of \$1.5 million in 2012 which was completed. The next required contributions are in 2021 for another \$1.5 million and the same amount is required in years 2031, 2041 and 2051. In 2061, the contribution is \$1.75 million and in 2071 and 2081, the contribution is \$2.25 million each.

The Museum has not completed the 2021 \$1.5 million payment to the trust as required under the lease agreement and is currently in default of the lease agreement. Management is in discussions with the City of Philadelphia to renegotiate the trust payments.

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Under the terms of the lease, all building, improvements and remaining balance of Memorial Hall Trust become the property of the City of Philadelphia at the termination of the lease.

The Museum leases equipment under operating leases expiring in April 2023.

The future minimum lease payments under the operating leases are as follows:

Year ending September 30,

2022	\$ 19,527
2023	<u>11,391</u>
	<u>\$ 30,918</u>

(13) SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 14, 2022, the date on which the financial statements were available to be issued. Except as disclosed below, no other material subsequent events have occurred since September 30, 2021 that require recognition or disclosure in the financial statements.

In October 2021, the Museum received a Supplemental Phase Shuttered Venue Operators Grants in the amount of \$1,363,226.

In January 2022, the Museum modified its SBA Economic Injury Disaster Loan from \$25,000 to \$500,000. The additional funds were received by the Museum in January 2022.

The extent of the impact of COVID-19 on the Museum's operational and financial performance will depend on further developments, including the duration and spread of the outbreak, all of which cannot be predicted at this time.