

**The Tech Museum of Innovation**

**Financial Statements**

**June 30, 2012 and 2011**

Board of Directors  
The Tech Museum of Innovation  
San Jose, California

Certified  
Public  
Accountants

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of financial position of The Tech Museum of Innovation (the Organization) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

New York  
Palo Alto  
San Francisco  
San Jose  
St. Helena

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Tech Museum of Innovation as of June 30, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Frank, Rimerman + Co. LLP*

November 13, 2012

# The Tech Museum of Innovation

## Statements of Financial Position

	June 30, 2012				June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>ASSETS</b>								
Cash and Cash Equivalents	\$ 74,656	\$ 1,623,368	\$ -	\$ 1,698,024	\$ 396,078	\$ -	\$ -	\$ 396,078
Grants and Other Receivables	-	2,051,971	-	2,051,971	190,487	936,367	-	1,126,854
Pledges Receivable, net of discount and allowance for doubtful accounts of \$52,000	-	12,853,356	11,000	12,864,356	-	1,408,506	11,000	1,419,506
Prepaid Expenses and Other Assets	303,250	-	-	303,250	205,772	-	-	205,772
Investments	12,256	2,225,529	12,704,706	14,942,491	360,967	2,980,477	12,704,706	16,046,150
Property, Exhibits and Equipment, net	5,353,498	-	-	5,353,498	5,732,342	-	-	5,732,342
Beneficial Interest in Use of Facility, net	-	21,314,517	-	21,314,517	-	21,432,562	-	21,432,562
<b>Total assets</b>	<b>\$ 5,743,660</b>	<b>\$ 40,068,741</b>	<b>\$ 12,715,706</b>	<b>\$ 58,528,107</b>	<b>\$ 6,885,646</b>	<b>\$ 26,757,912</b>	<b>\$ 12,715,706</b>	<b>\$ 46,359,264</b>
<b>LIABILITIES AND NET ASSETS</b>								
<b>Liabilities</b>								
Accounts payable	\$ 360,093	\$ -	\$ -	\$ 360,093	\$ 194,486	\$ -	\$ -	\$ 194,486
Accrued expenses	327,059	-	-	327,059	456,378	-	-	456,378
Deferred revenue	332,841	-	-	332,841	339,039	-	-	339,039
Capital lease obligation	21,690	-	-	21,690	31,236	-	-	31,236
<b>Total liabilities</b>	<b>1,041,683</b>	<b>-</b>	<b>-</b>	<b>1,041,683</b>	<b>1,021,139</b>	<b>-</b>	<b>-</b>	<b>1,021,139</b>
Commitments (Notes 8 and 9)								
<b>Net Assets</b>								
Unrestricted	4,701,977	-	-	4,701,977	5,864,507	-	-	5,864,507
Temporarily restricted	-	40,068,741	-	40,068,741	-	26,757,912	-	26,757,912
Permanently restricted	-	-	12,715,706	12,715,706	-	-	12,715,706	12,715,706
<b>Total net assets</b>	<b>4,701,977</b>	<b>40,068,741</b>	<b>12,715,706</b>	<b>57,486,424</b>	<b>5,864,507</b>	<b>26,757,912</b>	<b>12,715,706</b>	<b>45,338,125</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,743,660</b>	<b>\$ 40,068,741</b>	<b>\$ 12,715,706</b>	<b>\$ 58,528,107</b>	<b>\$ 6,885,646</b>	<b>\$ 26,757,912</b>	<b>\$ 12,715,706</b>	<b>\$ 46,359,264</b>

See Notes to Financial Statements

**The Tech Museum of Innovation**  
**Statements of Activities**  
**Years Ended June 30, 2012 and 2011**

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support								
Public support	\$ 1,105,000	\$ -	\$ -	\$ 1,105,000	\$ 1,300,000	\$ -	\$ -	\$ 1,300,000
Contributed support	1,976,250	18,562,866	-	20,539,116	2,025,508	3,097,906	30,000	5,153,414
In-kind contributions	1,491,269	-	-	1,491,269	1,242,109	-	-	1,242,109
Donated use of facilities	1,285,955	-	-	1,285,955	1,292,635	-	-	1,292,635
Admissions and fees	1,780,503	-	-	1,780,503	3,289,350	-	-	3,289,350
Store revenue	185,654	-	-	185,654	348,899	-	-	348,899
Investment income	146	-	-	146	1,781,992	688,892	-	2,470,884
Rental and other income	768,096	-	-	768,096	901,117	-	-	901,117
Net assets released from restrictions	5,252,037	(5,252,037)	-	-	4,642,456	(4,642,456)	-	-
Total revenues and other support	13,844,910	13,310,829	-	27,155,739	16,824,066	(855,658)	30,000	15,998,408
Expenses								
Program services								
Exhibits, programs and experiences	9,007,232	-	-	9,007,232	9,020,571	-	-	9,020,571
Education	985,757	-	-	985,757	1,038,532	-	-	1,038,532
Visitor services	1,629,218	-	-	1,629,218	1,356,299	-	-	1,356,299
Support services								
Fundraising and membership	1,498,456	-	-	1,498,456	1,488,888	-	-	1,488,888
General and administrative								
Marketing	860,539	-	-	860,539	694,583	-	-	694,583
Administration	1,026,238	-	-	1,026,238	1,238,206	-	-	1,238,206
Total expenses	15,007,440	-	-	15,007,440	14,837,079	-	-	14,837,079
Change in Net Assets	(1,162,530)	13,310,829	-	12,148,299	1,986,987	(855,658)	30,000	1,161,329
Net Assets, beginning of year	5,864,507	26,757,912	12,715,706	45,338,125	3,877,520	27,613,570	12,685,706	44,176,796
Net Assets, end of year	\$ 4,701,977	\$ 40,068,741	\$ 12,715,706	\$ 57,486,424	\$ 5,864,507	\$ 26,757,912	\$ 12,715,706	\$ 45,338,125

See Notes to Financial Statements

**The Tech Museum of Innovation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2012**

	Programs				Support Services					Total
	Exhibits, Programs and Experiences	Education	Visitor Services	Total Program Services	Fundraising and Membership	General and Administrative		Total Support Services		
						Marketing	Administration			
Salaries	\$ 1,438,277	\$ 474,910	\$ 1,046,823	\$ 2,960,010	\$ 380,347	\$ 317,162	\$ 514,124	\$ 1,211,633	\$ 4,171,643	
Payroll Taxes	105,658	34,883	75,664	216,205	29,550	23,074	30,406	83,030	299,235	
Benefits	77,871	28,425	55,419	161,715	22,790	16,626	28,270	67,686	229,401	
Professional Fees	151,146	-	21,971	173,117	120,000	112,186	173,534	405,720	578,837	
Materials and Supplies	290,488	17,552	155,272	463,312	46,922	7,371	43,953	98,246	561,558	
Advertising and Public Relations	268,757	2,033	16,872	287,662	3,780	255,413	-	259,193	546,855	
Fees and Services	479,329	1,775	69,760	550,864	2,436	43,437	85,685	131,558	682,422	
Royalties	286,148	-	-	286,148	-	-	-	-	286,148	
Bankcard Fees	55,477	-	-	55,477	-	-	-	-	55,477	
In-kind Contributions	735,101	20,067	1,553	756,721	346,696	7,056	4,943	358,695	1,115,416	
Travel and Transportation	32,985	77,952	16,893	127,830	4,712	9,442	26,225	40,379	168,209	
Occupancy	1,026,537	78,771	63,501	1,168,809	30,767	32,987	20,203	83,957	1,252,766	
Building and Equipment Rental	220,475	8,803	2,906	232,184	-	6,314	-	6,314	238,498	
Depreciation and Amortization	1,035,726	27,375	33,394	1,096,495	21,662	16,247	37,909	75,818	1,172,313	
Donated Rent	1,224,051	91,359	39,154	1,354,564	24,718	12,359	12,359	49,436	1,404,000	
Tech Awards	1,129,302	-	-	1,129,302	382,939	-	-	382,939	1,512,241	
Retirement of exhibits	352,224	-	-	352,224	-	-	-	-	352,224	
Other	97,680	121,852	30,036	249,568	81,137	865	48,627	130,629	380,197	
<b>Total expenses</b>	<b>\$ 9,007,232</b>	<b>\$ 985,757</b>	<b>\$ 1,629,218</b>	<b>\$ 11,622,207</b>	<b>\$ 1,498,456</b>	<b>\$ 860,539</b>	<b>\$ 1,026,238</b>	<b>\$ 3,385,233</b>	<b>\$ 15,007,440</b>	
<b>Percent of Total Expenses</b>	<b>60%</b>	<b>6%</b>	<b>11%</b>	<b>77%</b>	<b>10%</b>	<b>6%</b>	<b>7%</b>	<b>23%</b>	<b>100%</b>	

See Notes to Financial Statements

**The Tech Museum of Innovation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2011**

	Programs				Support Services					Total
	Exhibits, Programs and Experiences	Education	Visitor Services	Total Program Services	Fundraising and Membership	General and Administrative		Total Support Services		
						Marketing	Administration			
Salaries	\$ 1,765,101	\$ 389,631	\$ 877,018	\$ 3,031,750	\$ 529,674	\$ 237,859	\$ 683,305	\$ 1,450,838	\$ 4,482,588	
Payroll Taxes	123,818	20,938	55,931	200,687	37,097	24,189	41,544	102,830	303,517	
Benefits	129,293	38,578	72,736	240,607	37,300	3,989	18,576	59,865	300,472	
Professional Fees	80,540	61,397	5,327	147,264	196,410	50,480	274,366	521,256	668,520	
Materials and Supplies	266,603	54,310	148,632	469,545	24,488	44,036	54,749	123,273	592,818	
Advertising and Public Relations	373,059	3,000	12,556	388,615	3,619	234,980	-	238,599	627,214	
Fees and Services	761,790	43,214	38,295	843,299	33,159	-	35,935	69,094	912,393	
Royalties	330,090	-	-	330,090	-	-	-	-	330,090	
Bankcard Fees	120,012	-	-	120,012	-	-	-	-	120,012	
In-kind Contributions	395,886	100,000	-	495,886	120,661	50,000	-	170,661	666,547	
Travel and Transportation	11,219	31,973	3,888	47,080	9,378	6,971	30,355	46,704	93,784	
Occupancy	1,054,745	78,819	33,780	1,167,344	19,834	9,917	9,917	39,668	1,207,012	
Building and Equipment Rental	281,413	34,875	-	316,288	-	-	-	-	316,288	
Depreciation and Amortization	971,494	26,678	29,376	1,027,548	14,952	14,952	20,933	50,837	1,078,385	
Donated Rent	1,224,051	91,359	39,154	1,354,564	24,718	12,359	12,359	49,436	1,404,000	
Tech Awards	1,070,169	-	-	1,070,169	381,577	-	-	381,577	1,451,746	
Other	61,288	63,760	39,606	164,654	56,021	4,851	56,167	117,039	281,693	
<b>Total expenses</b>	<b>\$ 9,020,571</b>	<b>\$ 1,038,532</b>	<b>\$ 1,356,299</b>	<b>\$ 11,415,402</b>	<b>\$ 1,488,888</b>	<b>\$ 694,583</b>	<b>\$ 1,238,206</b>	<b>\$ 3,421,677</b>	<b>\$ 14,837,079</b>	
<b>Percent of Total Expenses</b>	<b>61%</b>	<b>7%</b>	<b>9%</b>	<b>77%</b>	<b>10%</b>	<b>5%</b>	<b>8%</b>	<b>23%</b>	<b>100%</b>	

See Notes to Financial Statements

**The Tech Museum of Innovation**  
**Statements of Cash Flows**

	Years Ended June 30,	
	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	\$ 12,148,299	\$ 1,161,329
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,172,313	1,078,385
In-kind donation of property and equipment	(375,853)	(575,562)
In-kind rent expense related to promised use of facility, net	118,045	111,365
Net realized and unrealized (gain) loss on investments	217,262	(2,230,180)
Change in discount on pledges receivable	345,150	(517)
Retirement of exhibits	352,224	24,217
Provision for uncollectible receivables	-	25,920
Changes in operating assets and liabilities:		
Grants and other receivables	(925,117)	552,486
Pledges receivable	(11,790,000)	(235,000)
Prepaid expenses and other assets	(97,478)	72,681
Accounts payable and accrued expenses	36,288	(462,957)
Deferred revenue	(6,198)	(134,364)
Net cash provided by (used in) operating activities	<u>1,194,935</u>	<u>(612,197)</u>
Cash Flows from Investing Activities:		
Net proceeds from sale of investments	1,541,037	1,665,718
Purchase of investments	(654,640)	(878,206)
Purchase of property, exhibits and equipment	(769,840)	(756,486)
Net cash provided by investing activities	<u>116,557</u>	<u>31,026</u>
Cash Flows from Financing Activities:		
Payments on capital lease obligation	(9,546)	(9,264)
Net cash used in financing activities	<u>(9,546)</u>	<u>(9,264)</u>
Net increase (decrease) in cash and cash equivalents	1,301,946	(590,435)
Cash and Cash Equivalents, beginning of year	<u>396,078</u>	<u>986,513</u>
Cash and Cash Equivalents, end of year	<u>\$ 1,698,024</u>	<u>\$ 396,078</u>

See Notes to Financial Statements

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 1. Nature of Activities

The mission of The Tech Museum of Innovation (the Organization) is to inspire the innovator in everyone. The Organization accomplishes this by engaging visitors in hands-on learning experiences involving science and technology. The overall mission is that through its exhibits and programs, the Organization will inspire learning and invigorate innovation locally, nationally, and globally.

The Organization offers interactive exhibits, hands-on science labs, after-school activities, and standards-based educational IMAX films. Additionally, the Organization hosts two annual signature programs. The Tech Challenge is a team competition that inspires thousands of students in grades 5-12 to design and build devices that solve a real world problem. For the past 25 years, The Tech Challenge has reached out to different ethnic and socioeconomic communities to introduce students not only to Science, Technology, Engineering, and Mathematics (STEM) concepts, but also to the thrill of hands-on learning and real-world design. The Tech Awards, which commenced in 2001, is an international program that identifies and honors individuals and teams that develop technological solutions to humanity's most pressing problems.

The Organization's staff and volunteers welcome approximately 500,000 visitors annually to the permanent galleries and traveling exhibitions. They also assist visitors with ticketing, choosing programs, and assessing educational opportunities such as IMAX film presentations. More than 7,000 member households help support the Organization, including approximately 1,000 local educators.

#### 2. Significant Accounting Policies

##### *Basis of Presentation:*

The Organization prepares its financial statements on the accrual basis of accounting under accounting principles generally accepted in the United States of America.



## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *Basis of Presentation:* (continued)

The Organization segregates its assets and liabilities, and operations into three categories: unrestricted, temporarily restricted and permanently restricted. The Organization's net assets and changes therein are classified and reported as follows:

Unrestricted net assets consist of net assets for which there are no donor-imposed restrictions or such donor-imposed restrictions were temporary and expired during the current or previous years.

Temporarily restricted net assets are those whose use is restricted by the donor based on time or purpose. Generally these funds will be expended for a specified purpose or for a period of time and not currently available for general use. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.

Permanently restricted net assets are assets restricted by the donor in perpetuity. These assets consist of investments and pledges receivable. Income from these assets is recorded as unrestricted or temporarily restricted net assets unless otherwise permanently restricted by donor stipulations.

##### *Estimates:*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and reported amounts of revenues and expenses in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### *Revenue Recognition:*

The Organization recognizes grants, contributions and unconditional promises to give (pledges) as revenue at their fair value in the period the donor makes the contribution or pledge that is, in substance, unconditional. Conditional promises to give and support are not recognized until the conditions are met. The Organization distinguishes among contributions that increase any of the three categories of net assets, with recognition being made of the expiration of donor-imposed restrictions in the period in which the restrictions expire. Grants and contributions to be received after one year are reflected at the present value of estimated future cash flows.

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *Revenue Recognition:* (continued)

Admissions are recorded when received. Membership dues are deferred upon receipt and recognized ratably over the membership period, generally for one year following the period of receipt. Amounts received for services or events not yet provided are classified as deferred revenue, and are recognized in the period in which the service is provided or the event takes place.

##### *In-Kind Donations:*

The Organization records various types of in-kind donations including professional services, tangible assets and the use of tangible assets. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets, or the use thereof, are recognized when promised or received, whichever is earlier. The amounts reflected in the accompanying financial statements as in-kind donations are offset by like amounts of expenses or in the case of long-term assets, over the period benefited. Additionally, the Organization receives a significant amount of contributed time related to program services and fundraising, which does not meet the recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

##### *Cash Equivalents:*

The Organization considers all short-term, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

##### *Investments:*

Investments in marketable securities and money market funds are reported at fair value based on quoted market prices. Certificates of deposit that have original maturities of greater than three months are included in investments and are reported at fair value based on cost and accumulated interest. Investment income is recorded on the accrual basis and dividends are recorded at the ex-dividend date. Unrealized gains and losses are included in investment income or loss.

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *Investments: (continued)*

Investments in private equity funds are reported at fair value based on quoted market prices, to the extent these funds are invested in publicly traded investments. The remaining investments are carried at estimated fair values as determined by the investment managers of these funds after giving consideration to operating results, financial condition, recent sales prices of issuers' securities and other pertinent information. These investments are valued at the Organization's percentage interest owned in these funds. Because of the inherent uncertainty of valuations, however, the estimated fair values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Income and gains on restricted investments are reported as increases in unrestricted or temporarily restricted net assets unless otherwise restricted by the donor.

##### *Concentrations of Credit Risk:*

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents, investments, pledges receivable and other receivables. The Organization's checking account is non-interest bearing and, therefore, is currently insured by the Federal Deposit Insurance Corporation with no limit. The Organization's investment balances exceed the limit insured by the Securities Investor Protection Corporation. The Organization's investment portfolio is managed by the Organization's Board of Directors.

Receivables are generally from local donors and these donors' credit worthiness is evaluated by the Organization on a regular basis. The Organization makes judgments as to the ability to collect all of its outstanding receivables and provides allowances for amounts when collection becomes doubtful. The Organization has a general provision for doubtful receivables, but it is the Organization's opinion that it is not exposed to significant credit risks in relation to these receivables.

##### *Property, Exhibits and Equipment:*

The Organization capitalizes property, exhibits and equipment acquisitions over \$3,000. Purchased or constructed property, exhibits and equipment are recorded at cost. Donated property, exhibits and equipment are recorded at their estimated fair value. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets ranging from three to 20 years. Leasehold improvements are amortized over the shorter of the asset life or the remaining lease term.

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *Property, Exhibits and Equipment: (continued)*

Gifts of property, exhibits and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

##### *Accounting for Impairment of Long-Lived Assets:*

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. When it is determined the carrying value of long-lived assets may not be recoverable, the Organization measures any impairment based on projected discounted cash flows using a discount rate commensurate with the risk inherent in its current operation model. To date, the Organization has not recorded any impairment of its long-lived assets.

##### *Income Taxes:*

The Organization has been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (Code) as an organization described in Section 501(c)(3) of the Code. The Organization is also exempt from California income taxes under Section 23701 of the California Revenue and Taxation Code.

Although an organization is recognized as tax exempt, it is still liable for tax on its unrelated business taxable income (UBTI). The Organization does not believe it has UBTI that will result in an income tax liability.

The Organization applies the provisions set forth in Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740 to account for uncertainty in income taxes. The Organization assessed all income tax positions taken where the statute of limitation remained open. The Organization believes that its tax filing positions will be sustained upon tax examinations; therefore, no liability for unrecognized income tax benefits has been recorded at June 30, 2012. The Organization does not anticipate any significant increases or decreases to unrecognized income tax benefits during the next 12 months.

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 2. Significant Accounting Policies (continued)

##### *Functional Expenses:*

The costs of providing the Organization's various programs and services have been summarized on a functional basis in the Statements of Functional Expenses. Directly identifiable expenses are charged to the related program or service benefited. Indirect expenses are allocated to programs and services based principally on the percentage of personnel time spent in each area or square footage utilized by the program or service.

Certain costs incurred for the Tech Awards Gala are considered to be joint costs. These costs have been allocated to the Tech Awards program (\$235,000 in 2012 and \$249,000 in 2011), which is included in exhibits, programs and experiences, and to fundraising and membership (\$78,000 in 2012 and \$83,000 in 2011) in the Statements of Functional Expenses.

##### *Advertising:*

Costs associated with advertising are expensed when incurred. Advertising expenses, including in-kind services, were \$778,000 in 2012 (\$873,000 in 2011).

##### *Reclassifications:*

Certain reclassifications have been made to prior year balances to conform with current year presentation.

**The Tech Museum of Innovation**  
**Notes to Financial Statements**

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3. Pledges Receivable

Pledges receivable that are not due within one year are recorded after discounting future cash flows to present value using discount rates of 2.5% to 3.8%.

The following table represents pledges receivable at June 30:

	<u>2012</u>	<u>2011</u>
The Tech 3.0 Campaign	\$ 12,000,000	\$ -
Other	<u>1,346,000</u>	<u>1,556,000</u>
	13,346,000	1,556,000
Receivable in less than one year	\$ 4,216,000	\$ 414,000
Receivable in one to five years	9,115,000	1,087,000
Receivable in more than five years	<u>15,000</u>	<u>55,000</u>
Subtotal	13,346,000	1,556,000
Less: allowance for doubtful accounts	(52,000)	(52,000)
Less: unamortized discount to present value	<u>(430,000)</u>	<u>(84,000)</u>
Net pledges receivable	<u>\$ 12,864,000</u>	<u>\$ 1,420,000</u>

In 2012, the Organization established The Tech 3.0 Campaign (the Campaign) with a plan to raise \$50,000,000 by 2017. The amounts raised are planned to be used to fund various programs and functions of the Organization, including construction and ongoing staffing and maintenance of new exhibits. In 2012, the Organization raised \$13,000,000 in relation to the Campaign, of which \$1,000,000 was received at June 30, 2012.

**The Tech Museum of Innovation**  
**Notes to Financial Statements**

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4. Investments and Fair Value Measurements

Investments consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Unrestricted and temporarily restricted investments:		
Certificates of deposit	\$ 2,225,529	\$ 2,966,604
Money market funds	12,256	10,022
Equity funds	<u>-</u>	<u>364,818</u>
Total	<u>\$ 2,237,785</u>	<u>\$ 3,341,444</u>
Permanently restricted investments:		
Certificates of deposit	\$ 308,108	\$ 47,638
Equity funds	7,687,984	8,257,031
Fixed income funds	3,532,403	3,474,933
Commodity fund	266,170	-
Venture capital funds	<u>910,041</u>	<u>925,104</u>
Total	<u>\$ 12,704,706</u>	<u>\$ 12,704,706</u>

Investment income represents earned income and gains and losses, net of investment management expenses. Realized gains and losses on investments are calculated as the difference between proceeds received and the original cost of the investment. Unrealized gains and losses represent the difference between the current fair value of the investments and their cost basis if purchased during the year, or their fair value at the beginning of the year.

Investment income and net gains and losses are comprised of the following for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 277,593	\$ 297,488
Net realized and unrealized gains (losses)	(217,262)	2,230,180
Investment management expenses	<u>(60,185)</u>	<u>(56,784)</u>
	<u>\$ 146</u>	<u>\$ 2,470,884</u>

**The Tech Museum of Innovation**  
**Notes to Financial Statements**

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4. Investments and Fair Value Measurements (continued)

The Organization categorizes its investments into a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The Organization defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The three-level hierarchy for fair value measurements is defined as follows:

**Level 1:** Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2:** Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the investments carried at fair value as of June 30, 2012 under the three-level hierarchy:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 2,533,637	\$ -	\$ 2,533,637
Money market funds	12,256	-	12,256
Equity funds:			
Domestic	-	7,193,284	7,193,284
International	-	494,700	494,700
Domestic fixed income funds	-	3,532,403	3,532,403
Commodity Fund	-	266,170	266,170
Venture capital funds	-	910,041	910,041
Total	<u>\$ 2,545,893</u>	<u>\$ 12,396,598</u>	<u>\$ 14,942,491</u>



**The Tech Museum of Innovation**  
**Notes to Financial Statements**

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4. Investments and Fair Value Measurements (continued)

The following table presents the investments carried at fair value as of June 30, 2011 under the three-level hierarchy:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 3,014,242	\$ -	\$ 3,014,242
Money market funds	10,022	-	10,022
Equity funds:			
Domestic	-	7,981,203	7,981,203
International	-	640,646	640,646
Domestic fixed income funds	-	3,474,933	3,474,933
Venture capital funds	<u>-</u>	<u>925,104</u>	<u>925,104</u>
Total	<u>\$ 3,024,264</u>	<u>\$ 13,021,886</u>	<u>\$ 16,046,150</u>

At June 30, 2012, the Organization's investment in equity funds includes five funds offered by the same investment firm. The five funds are comprised of cash and cash equivalents, common stock, equities, commodities and a wide range of other investment categories, with varying levels of marketability. The redemption frequency of these funds ranges from weekly to monthly, with five business days notice.

The tables below include a roll-forward of the amounts in the Statements of Financial Position for the years ended June 30, 2012 and 2011 (including the change in fair value) for non-marketable securities classified by the Organization within Level 3 of the fair value hierarchy. When a determination is made to classify an investment within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement; however, Level 3 investments typically include, in addition to the unobservable or Level 3 inputs, observable components (that is, components that are actively quoted or can be validated to market-based sources). The gains and losses in the table below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

**The Tech Museum of Innovation**  
**Notes to Financial Statements**

4. Investments and Fair Value Measurements (continued)

Investment activity in in the Organization's non-marketable securities consists of the following for the year ended June 30, 2012:

	June 30, 2011	Contributions	Realized and Unrealized Gain (Loss)	Investment Income (Loss)	Distributions	June 30, 2012
Commonfund Institutional Multi-Strategy Equity Fund, LLC	\$ 7,981,203	\$ -	\$ (249,724)	\$ 73,943	\$ (612,138)	\$ 7,193,284
Commonfund Institutional Multi-Strategy Bond Fund, LLC	1,756,166	-	52,367	61,590	(112,139)	1,757,984
Commonfund Institutional High Quality Bond Fund, LLC	1,718,767	-	72,522	57,922	(74,792)	1,774,419
Commonfund Institutional International Equity Fund, LLC	640,646	-	(111,807)	10,526	(44,666)	494,700
Commonfund Institutional Commodities LTD	-	285,000	(18,875)	45	-	266,170
Legacy Venture V, LLC	321,104	150,000	30,129	(20,969)	(20,247)	460,017
University Technology Ventures, LP	604,000	-	23,682	(601)	(177,057)	450,024
Total	<u>\$ 13,021,886</u>	<u>\$ 435,000</u>	<u>\$ (201,706)</u>	<u>\$ 182,456</u>	<u>\$ (1,041,039)</u>	<u>\$ 12,396,598</u>

Investment activity in in the Organization's non-marketable securities consists of the following for the year ended June 30, 2011:

	June 30, 2010	Contributions	Realized and Unrealized Gain	Investment Income (Loss)	Distributions	June 30, 2011
Commonfund Institutional Multi-Strategy Equity Fund, LLC	\$ 6,538,333	\$ -	\$ 1,695,027	\$ 72,843	\$ (325,000)	\$ 7,981,203
Commonfund Institutional Multi-Strategy Bond Fund, LLC	1,641,319	-	51,012	63,835	-	1,756,166
Commonfund Institutional High Quality Bond Fund, LLC	1,639,148	-	26,177	53,442	-	1,718,767
Commonfund Institutional International Equity Fund, LLC	494,131	-	136,188	10,327	-	640,646
Legacy Venture V, LLC	134,510	142,500	60,643	(16,549)	-	321,104
University Technology Ventures, LP	374,148	-	271,317	(747)	(40,718)	604,000
Total	<u>\$ 10,821,589</u>	<u>\$ 142,500</u>	<u>\$ 2,240,363</u>	<u>\$ 183,151</u>	<u>\$ (365,718)</u>	<u>\$ 13,021,886</u>

**The Tech Museum of Innovation**  
**Notes to Financial Statements**

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4. Investments and Fair Value Measurements (continued)

For Level 3 investments, which do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company, the Organization uses the net asset value method to determine the fair value of the investment. Significant portions of the assets comprising the value of the Organization's Level 3 investments are investments that are not readily marketable. As a result, the fair values of these portfolio investments recorded in the financial statements have been estimated by the fund managers of these private equity funds based on a variety of factors deemed relevant by the fund manager.

While the fund managers believe their valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of the non-marketable investments could result in a different estimate of fair value at the reporting date. Estimated fair values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

Distributions from the private equity funds are received through the liquidation of its underlying assets. At June 30, 2012, some of the Organization's Level 3 investments have varying redemption options to provide the Organization with liquidity, either quarterly or annually.

The Organization has commitments to invest additional capital to fund certain of its Level 3 investments. At June 30, 2012, the Organization had future capital call commitments of \$346,000, which are payable when required by the fund manager.

5. Property, Exhibits and Equipment

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

	<u>2012</u>	<u>2011</u>
Exhibits	\$ 12,524,720	\$ 19,818,867
Building and leasehold improvements	9,966,579	9,966,579
Equipment	4,645,980	7,413,267
Construction in progress	<u>121,386</u>	<u>242,654</u>
	27,258,665	37,441,367
Accumulated depreciation and amortization	<u>(21,905,167)</u>	<u>(31,709,025)</u>
Property, exhibits and equipment, net	<u>\$ 5,353,498</u>	<u>\$ 5,732,342</u>

**The Tech Museum of Innovation**  
**Notes to Financial Statements**

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5. Property, Exhibits and Equipment (continued)

Museum exhibits are generally constructed by the Organization and consist of materials, supplies, salaries and related benefits. Exhibits under construction are recorded as construction in progress, which are recorded as exhibits and depreciated when placed in service.

In 2012, the Organization recognized a retirement loss for an exhibit in the amount of \$129,000 due to this exhibit being replaced. In 2012, the Organization recognized a retirement loss on construction in progress in the amount of \$223,000 relating to amounts that were capitalized in prior years. It was determined in 2012 that these exhibits would not be placed into service. In 2011, the Organization recognized a retirement loss on an exhibit in the amount of \$24,000.

6. Beneficial Interest in Use of Facility

In 1998, the Organization entered into a 55 year agreement with the City of San Jose to lease its primary facility for \$1 per year. The Organization has recorded an asset to reflect a beneficial interest in the use of the facility, representing the estimated fair value of the lease at its inception. The asset is being amortized over the lease term to revenue as donated use of facility. The beneficial interest in the use of facility is as follows at June 30:

	<u>2012</u>	<u>2011</u>
Total benefit in interest in use of facility	\$ 58,266,000	\$ 59,670,000
Less discount at 6% to net present value	<u>(36,951,483)</u>	<u>(38,237,438)</u>
Net beneficial interest in use of facility	<u>\$ 21,314,517</u>	<u>\$ 21,432,562</u>

The following amounts have been recognized in the Statements of Activities in connection with the beneficial interest in use of facility for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Rent expense	\$ 1,404,000	\$ 1,404,000
Amortization of discount	<u>(1,285,955)</u>	<u>(1,292,635)</u>
Net decrease in temporarily restricted net assets	<u>\$ 118,045</u>	<u>\$ 111,365</u>

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 7. Line of Credit

The Organization has an unsecured \$2,000,000 line of credit with a bank, which the bank has extended annually. The line of credit expires in January 2013. Borrowings under the agreement bear interest at the bank's prime rate (3.25% at June 30, 2012). The Organization did not borrow against the line of credit in 2012 or 2011.

#### 8. Lease Arrangements

##### *Facility Leases:*

The Organization leased several facilities during 2012 and 2011, generally on a short-term basis and for specific exhibits or events. Future minimum lease payments under the leases are \$43,000 in 2013.

The Organization leases an IMAX theater under a non-cancelable lease through October 2013. The Organization prepaid the total rent expense to be incurred over the lease term, which is being amortized to rent expense. The lease also includes a maintenance agreement, which requires the Organization to incur a minimum amount of maintenance expense annually. The Organization prepaid the maintenance lease requirement, which is being amortized to occupancy expense over the lease term. The Organization is also subject to additional rent based on 7% of annual gross revenues earned from the theater over \$2,000,000 and 4% of annual gross revenues over \$3,000,000. The Organization did not incur any additional rent in 2012 or 2011. Total rent expense under the lease was \$113,000 in 2012 (\$93,000 in 2011). Total maintenance expense under the lease was \$100,000 in 2012 (\$80,000 in 2011).

As of June 30, 2012, the balance of the prepaid rent was \$41,000 (\$31,000 as of June 30, 2011). As of June 30, 2011, the balance of prepaid maintenance was \$27,000. There was no prepaid maintenance as of June 30, 2012.

##### *Capital Lease:*

In 2010, the Organization purchased \$48,000 of equipment under a capital lease arrangement. The lease requires monthly principal and interest payments, with interest at 3% per annum, through August 2014.

**The Tech Museum of Innovation**  
**Notes to Financial Statements**

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8. Lease Arrangements (continued)

*Capital Lease: (continued)*

Future minimum lease payments under the capital lease are as follows:

Year ending June 30,		
2013	\$	10,400
2014		10,400
2015		<u>1,700</u>
Total lease payments		22,500
Less: amount representing interest		<u>(800)</u>
Capital lease obligation	\$	<u>21,700</u>

9. Employee Retirement Plans

*Defined Contribution Retirement Plan:*

The Organization has a defined contribution retirement plan for employees meeting certain employment service requirements. Eligible employees may elect to contribute to the plan and the Organization may make qualified non-elective discretionary contributions. The Organization did not make any contributions to the plan in 2012 or 2011.

In 1999, the Organization initiated a key employee option plan (the Option Plan) whereby selected employees entered into pre-tax compensation reduction option agreements with the Organization, concurrent with being awarded non-qualified options to purchase shares in a fund. The number of options granted was based on actual compensation reduction amounts assuming a 25% discount from fair value to be paid upon exercise of the options. The fund is comprised of two mutual funds and had a fair value of \$12,000 at June 30, 2012 (\$10,000 at June 30, 2011). The funds were created with monies contributed by the Organization and employees as specified in their respective compensation reduction agreements. In 1999, the Organization awarded options to four employees, all of which were exercisable. The Organization subsequently froze participation in the Option Plan. Accrued expenses at June 30, 2012 include \$9,000 associated with the Option Plan (\$8,000 at June 30, 2011).

**The Tech Museum of Innovation**  
**Notes to Financial Statements**

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10. Net Assets

Temporarily restricted net assets are restricted by donors for the purposes and periods described below. Temporarily restricted net assets consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Beneficial interest in use of facility (time restriction)	\$ 21,314,517	\$ 21,432,562
Special projects (time and purpose restrictions)	2,100,393	1,103,751
Operations (time and purpose restrictions)	1,748,504	1,512,834
Receivables (time and purpose restrictions)	14,905,327	2,344,873
Undesignated endowment income (time restriction)	<u>-</u>	<u>363,892</u>
	<u>\$ 40,068,741</u>	<u>\$ 26,757,912</u>

Permanently restricted net assets of \$12,715,706 at June 30, 2012 and 2011 consist of investments held in perpetuity and a pledge receivable.

11. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors, including the passage of time. Net assets were released from restrictions as follows for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Beneficial interest in use of facility (time restriction)	\$ 118,045	\$ 111,365
Special projects (time and purpose restrictions)	1,088,830	1,352,277
Operations (time and purpose restrictions)	3,681,270	2,853,814
Designated endowment income (time restriction)	<u>363,892</u>	<u>325,000</u>
	<u>\$ 5,252,037</u>	<u>\$ 4,642,456</u>

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 12. Endowment

The Organization's endowment consists of contributions receivable or received, which are permanently restricted by the donors. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, 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 the 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. Once appropriated, these amounts are classified as unrestricted net assets.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Organization;
- (7) The Organization's investment policies.



**The Tech Museum of Innovation**  
**Notes to Financial Statements**

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12. Endowment (continued)

Endowment net assets consist of the following at June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted Endowment Funds	\$ -	\$ -	\$ 12,715,706	\$ 12,715,706
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,715,706</u>	<u>\$ 12,715,706</u>

Endowment net assets consist of the following at June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted Endowment Funds	\$ -	\$ -	\$ 12,715,706	\$ 12,715,706
Undesignated Endowment Income	-	363,892	-	363,892
Designated Endowment Income	<u>325,000</u>	<u>-</u>	<u>-</u>	<u>325,000</u>
	<u>\$ 325,000</u>	<u>\$ 363,892</u>	<u>\$ 12,715,706</u>	<u>\$ 13,404,598</u>

The Organization has adopted an investment policy for endowment assets with the primary objectives to preserve the real purchasing power of the principal and to provide a stable source of perpetual financial support. Under this policy, the investments are diversified to help minimize the overall risk of the portfolio. On an annualized, net-of-fee basis, the total return of the portfolio will be expected to equal or exceed the spending rate (targeted at a minimum of 5% per annum) plus inflation based on the consumer price index (CPI) over a rolling five year period. Additionally, the returns should show favorable, relative performance characteristics.

It is the Organization's policy, subject to maximum distribution defined as 5% of the three-year moving average of the endowment fund assets, to determine the appropriate annual cash distribution from the fund to support its operations, however, in no event will the spending policy adopted result in the fair value of the endowment fund to be less than the amount the donor or SPMIFA require to be held in perpetuity.

At June 30, 2012, the cost of endowment investments approximated their fair value.

**The Tech Museum of Innovation**  
**Notes to Financial Statements**

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13. Related Parties

The Organization's Board of Directors (the Board) is active in oversight of fundraising events, activities and in making private contributions. Contributions received from the Board or from companies with which Board members are affiliated with were \$15,961,000 in 2012 (\$3,176,000 in 2011). Amounts due from the Board and affiliates are \$13,508,000 at June 30, 2012 (\$1,542,000 at June 30, 2011).

14. Subsequent Events

Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the financial statements were approved by the Organization and available to be issued.