



The Tech Museum of Innovation

Financial Statements

June 30, 2015 and 2014

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

Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of The Tech Museum of Innovation, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Palo Alto
San Francisco
San Jose
St. Helena
New York

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Tech Museum of Innovation as of June 30, 2015 and 2014, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Frank Rimerman + Co. LLP

San Jose, California
October 20, 2015

The Tech Museum of Innovation Statements of Financial Position

	June 30, 2015				June 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Cash and Cash Equivalents	\$ 1,990,920	\$ 518,995	\$ -	\$ 2,509,915	\$ 1,785,395	\$ 3,547,331	\$ -	\$ 5,332,726
Grants and Other Receivables	353,548	-	-	353,548	50,276	-	-	50,276
Pledges Receivable, net of discount and allowance for doubtful accounts of \$25,000 (\$50,000 in 2014)	-	6,604,828	11,000	6,615,828	-	9,080,946	11,000	9,091,946
Prepaid Expenses and Other Assets	306,109	-	-	306,109	236,168	-	-	236,168
Investments	1,504,564	9,562,692	12,704,706	23,771,962	648,354	6,648,234	12,704,706	20,001,294
Property, Exhibits and Equipment, net	11,058,337	-	-	11,058,337	7,265,358	-	-	7,265,358
Beneficial Interest in Use of Facility, net	-	20,916,156	-	20,916,156	-	21,056,751	-	21,056,751
Total assets	\$ 15,213,478	\$ 37,602,671	\$ 12,715,706	\$ 65,531,855	\$ 9,985,551	\$ 40,333,262	\$ 12,715,706	\$ 63,034,519
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable	\$ 920,943	\$ -	\$ -	\$ 920,943	\$ 804,299	\$ -	\$ -	\$ 804,299
Accrued expenses	683,653	-	-	683,653	416,836	-	-	416,836
Deferred revenue	500,601	-	-	500,601	578,653	-	-	578,653
Capital lease obligations	30,122	-	-	30,122	37,427	-	-	37,427
Total liabilities	2,135,319	-	-	2,135,319	1,837,215	-	-	1,837,215
Commitments (Notes 4, 7 and 8)								
Net Assets								
Unrestricted	13,078,159	-	-	13,078,159	8,148,336	-	-	8,148,336
Temporarily restricted	-	37,602,671	-	37,602,671	-	40,333,262	-	40,333,262
Permanently restricted	-	-	12,715,706	12,715,706	-	-	12,715,706	12,715,706
Total net assets	13,078,159	37,602,671	12,715,706	63,396,536	8,148,336	40,333,262	12,715,706	61,197,304
Total liabilities and net assets	\$ 15,213,478	\$ 37,602,671	\$ 12,715,706	\$ 65,531,855	\$ 9,985,551	\$ 40,333,262	\$ 12,715,706	\$ 63,034,519

See Notes to Financial Statements

The Tech Museum of Innovation
Statements of Activities
Years Ended June 30, 2015 and 2014

	2015			2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support								
Public support	\$ 1,169,283	\$ -	\$ -	\$ 1,169,283	\$ 1,149,750	\$ -	\$ -	\$ 1,149,750
Contributed support	1,426,614	10,103,191	-	11,529,805	1,093,871	6,476,863	-	7,570,734
In-kind contributions	1,575,891	-	-	1,575,891	1,416,613	-	-	1,416,613
Donated use of facilities	1,263,405	-	-	1,263,405	1,271,363	-	-	1,271,363
Admissions and fees	3,040,923	-	-	3,040,923	5,082,317	-	-	5,082,317
Investment income, net	23,210	530,255	-	553,465	43,341	2,515,879	-	2,559,220
Rental and other income	1,653,529	-	-	1,653,529	1,758,634	-	-	1,758,634
Net assets released from restrictions	13,364,037	(13,364,037)	-	-	9,745,302	(9,745,302)	-	-
Total revenues and other support	23,516,892	(2,730,591)	-	20,786,301	21,561,191	(752,560)	-	20,808,631
Expenses								
Program services								
Exhibits, programs and experiences	10,304,726	-	-	10,304,726	11,876,176	-	-	11,876,176
Education	1,802,569	-	-	1,802,569	1,528,858	-	-	1,528,858
Visitor services	2,188,168	-	-	2,188,168	1,835,094	-	-	1,835,094
Support services								
Fundraising and membership	1,781,036	-	-	1,781,036	1,467,285	-	-	1,467,285
General and administrative								
Marketing	1,133,496	-	-	1,133,496	1,078,671	-	-	1,078,671
Administration	1,377,074	-	-	1,377,074	1,426,565	-	-	1,426,565
Total expenses	18,587,069	-	-	18,587,069	19,212,649	-	-	19,212,649
Change in Net Assets	4,929,823	(2,730,591)	-	2,199,232	2,348,542	(752,560)	-	1,595,982
Net Assets, beginning of year	8,148,336	40,333,262	12,715,706	61,197,304	5,799,794	41,085,822	12,715,706	59,601,322
Net Assets, end of year	\$ 13,078,159	\$ 37,602,671	\$ 12,715,706	\$ 63,396,536	\$ 8,148,336	\$ 40,333,262	\$ 12,715,706	\$ 61,197,304

See Notes to Financial Statements

The Tech Museum of Innovation
Statement of Functional Expenses
Year Ended June 30, 2015

	Programs				Support Services				
	Exhibits, Programs and Experiences	Education	Visitor Services	Total Program Services	Fundraising and Membership	General and Administrative		Total Support Services	Total
						Marketing	Administration		
Salaries	\$ 2,833,454	\$ 799,161	\$ 1,265,711	\$ 4,898,326	\$ 694,924	\$ 554,509	\$ 730,021	\$ 1,979,454	\$ 6,877,780
Payroll Taxes	193,028	56,106	88,610	337,744	48,751	38,981	51,177	138,909	476,653
Benefits	238,454	69,881	108,433	416,768	60,129	48,623	60,371	169,123	585,891
Professional Fees	219,416	68,656	500	288,572	58,460	30,982	140,655	230,097	518,669
Materials and Supplies	355,146	52,283	73,512	480,941	53,682	49,102	52,538	155,322	636,263
Advertising and Public Relations	6,777	6,121	-	12,898	56,133	224,264	-	280,397	293,295
Fees and Services	92,935	12,372	13,379	118,686	3,558	55,151	73,504	132,213	250,899
Royalties	371,080	-	-	371,080	8,933	-	-	8,933	380,013
Bankcard Fees	88,164	-	-	88,164	-	-	-	-	88,164
In-kind Contributions	-	85,583	-	85,583	55,564	-	50,939	106,503	192,086
Travel and Transportation	94,833	3,042	4,187	102,062	14,729	7,165	49,105	70,999	173,061
Occupancy	776,343	198,056	508,079	1,482,478	91,015	65,966	76,112	233,093	1,715,571
Building and Equipment Rental	140,914	28,914	2,569	172,397	544	937	2,156	3,637	176,034
Depreciation and Amortization	1,609,978	48,040	39,662	1,697,680	28,610	38,147	23,842	90,599	1,788,279
Donated Rent	1,224,049	91,359	39,172	1,354,580	24,710	12,355	12,355	49,420	1,404,000
Tech Awards	1,984,714	-	-	1,984,714	506,160	-	-	506,160	2,490,874
Other	75,441	282,995	44,354	402,790	75,134	7,314	54,299	136,747	539,537
Total expenses	\$ 10,304,726	\$ 1,802,569	\$ 2,188,168	\$ 14,295,463	\$ 1,781,036	\$ 1,133,496	\$ 1,377,074	\$ 4,291,606	\$ 18,587,069
Percent of Total Expenses	55%	10%	12%	77%	10%	6%	7%	23%	100%

See Notes to Financial Statements

The Tech Museum of Innovation
Statement of Functional Expenses
Year Ended June 30, 2014

	Programs				Support Services				
	Exhibits, Programs and Experiences	Education	Visitor Services	Total Program Services	Fundraising and Membership	General and Administrative		Total Support Services	Total
						Marketing	Administration		
Salaries	\$ 2,359,168	\$ 727,635	\$ 1,012,635	\$ 4,099,438	\$ 650,541	\$ 492,197	\$ 769,844	\$ 1,912,582	\$ 6,012,020
Payroll Taxes	166,245	51,800	71,788	289,833	45,716	34,540	54,166	134,422	424,255
Benefits	224,908	68,972	96,414	390,294	61,812	47,044	75,270	184,126	574,420
Professional Fees	217,397	60,906	36,000	314,303	130,818	14,939	150,345	296,102	610,405
Materials and Supplies	476,165	48,482	80,263	604,910	49,647	28,935	57,729	136,311	741,221
Advertising and Public Relations	303,425	19,417	8,767	331,609	391	224,519	-	224,910	556,519
Fees and Services	987,630	14,274	9,718	1,011,622	1,468	86,481	78,876	166,825	1,178,447
Royalties	243,025	-	-	243,025	2,921	-	-	2,921	245,946
Bankcard Fees	122,221	-	-	122,221	-	-	-	-	122,221
In-kind Contributions	3,600	17,896	-	21,496	72,752	-	21,507	94,259	115,755
Travel and Transportation	158,788	13,506	9,380	181,674	10,782	3,583	34,215	48,580	230,254
Occupancy	996,127	151,452	392,663	1,540,242	92,699	95,219	69,684	257,602	1,797,844
Building and Equipment Rental	310,979	25,633	935	337,547	427	147	1,132	1,706	339,253
Depreciation and Amortization	1,297,078	35,000	41,567	1,373,645	26,682	32,018	36,936	95,636	1,469,281
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	2,554,463	-	-	2,554,463	231,280	-	-	231,280	2,785,743
Other	230,906	202,526	35,810	469,242	64,631	6,690	64,502	135,823	605,065
Total expenses	\$ 11,876,176	\$ 1,528,858	\$ 1,835,094	\$ 15,240,128	\$ 1,467,285	\$ 1,078,671	\$ 1,426,565	\$ 3,972,521	\$ 19,212,649
Percent of Total Expenses	62%	8%	9%	79%	8%	6%	7%	21%	100%

See Notes to Financial Statements

The Tech Museum of Innovation
Statements of Cash Flows

	Years Ended June 30,	
	2015	2014
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,199,232	\$ 1,595,982
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,788,279	1,469,281
Change in allowance for doubtful accounts for pledges receivable	(25,000)	(2,000)
In-kind contribution of marketable securities	(2,421,890)	-
In-kind donation of property, exhibits and equipment	(627,375)	(15,038)
In-kind rent expense related to contributed use of facility, net	140,595	132,637
Net realized and unrealized gain on investments	(330,067)	(2,318,302)
Change in discount on pledges receivable	50,749	(226,598)
Retirement of exhibits	71,595	144,910
Changes in operating assets and liabilities:		
Grants and other receivables	(303,272)	1,264,581
Pledges receivable	2,450,369	3,236,738
Prepaid expenses and other assets	(69,941)	(27,311)
Accounts payable and accrued expenses	(463,623)	(445,231)
Deferred revenue	(78,052)	193,556
Net cash provided by operating activities	<u>2,381,599</u>	<u>5,003,205</u>
Cash Flows from Investing Activities:		
Net proceeds from sale and distribution of investments	1,273,571	1,099,815
Purchase of investments	(2,292,282)	(1,156,850)
Purchase of property, exhibits and equipment	(4,178,394)	(1,874,466)
Net cash used in investing activities	<u>(5,197,105)</u>	<u>(1,931,501)</u>
Cash Flows from Financing Activities:		
Payments on capital lease obligations	(7,305)	(10,135)
Net cash used in financing activities	<u>(7,305)</u>	<u>(10,135)</u>
Net increase (decrease) in cash and cash equivalents	(2,822,811)	3,061,569
Cash and Cash Equivalents, beginning of year	5,332,726	2,271,157
Cash and Cash Equivalents, end of year	<u>\$ 2,509,915</u>	<u>\$ 5,332,726</u>

Supplemental Schedule of Noncash Investing and Financing Activities

Amounts payable for construction in progress	\$ 847,084	\$ 489,149
Equipment financed through capital lease obligation	\$ -	\$ 35,708

See Notes to Financial Statements

The Tech Museum of Innovation

Notes to Financial Statements

1. Nature of Activities

The mission of The Tech Museum of Innovation (the Museum) is to inspire the innovator in everyone. The Museum 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 Museum will inspire learning and invigorate innovation locally, nationally, and globally.

The Museum offers interactive exhibits, hands-on science labs, after-school activities, and standards-based educational IMAX films. Additionally, the Museum 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 28 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 Museum's staff and volunteers welcome approximately 400,000 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 Museum.

2. Significant Accounting Policies

Basis of Presentation:

The Museum 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

2. Significant Accounting Policies (continued)

Basis of Presentation: (continued)

The Museum segregates its assets, liabilities and operations into three categories: unrestricted, temporarily restricted and permanently restricted. The Museum'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 Statements 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 Museum 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 Museum 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

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 Museum 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 Museum 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.

In 2015, the Museum recognized in-kind contribution revenue of \$1,576,000 (in-kind contribution revenue of \$1,417,000 in 2014). Expenses related to these in-kind donations are recognized in the Statement of Functional Expenses as in-kind contributions of \$192,000 (in-kind contributions of \$116,000 in 2014) and Tech Awards expense of \$757,000 (Tech Awards expense of \$1,286,000 in 2014). The remaining \$627,000 represents donated property, exhibits and equipment (\$15,000 represents donated property, exhibits and equipment in 2014).

Cash Equivalents:

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

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Fair Value Measurements:

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.

Investments in private equity, fixed income and venture capital 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 and general partners 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 based on the Museum's percentage interest owned in each fund. 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.

Pledges receivable that are not due within one year are recorded at estimated fair value. The Museum estimated fair value by discounting future cash flows to present value using the discount rate at the date of the financial statements, which considers the risk free-rate and a risk premium based on the donor's credit worthiness. At June 30, 2015 and 2014, the Museum applied a discount rate of 2.25%.

Concentrations of Credit Risk:

Financial instruments that potentially subject the Museum to concentrations of credit risk consist primarily of cash and cash equivalents, investments, pledges receivable and other receivables. The Museum maintains most of its cash accounts at one commercial bank. The Museum's cash and cash equivalents generally exceed the amount insured by the Federal Deposit Insurance Corporation. The Museum's investment balances exceed the limit insured by the Securities Investor Protection Corporation.

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Concentrations of Credit Risk: (continued)

Receivables are generally from local donors and these donors' credit worthiness is evaluated by the Museum on a regular basis. The Museum makes judgments as to the ability to collect all of its outstanding receivables and provides allowances for potential credit losses as needed. Credit losses have historically been within management's expectation.

Property, Exhibits and Equipment:

The Museum 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.

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 Museum 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 Museum 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 Museum has not recorded any impairment of its long-lived assets.

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Income Taxes:

The Museum 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 Museum 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 Museum does not believe it has UBTI that will result in an income tax liability. The Museum's federal exempt organization business income tax returns are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

The Museum applies the provisions set forth in FASB Accounting Standards Codification Topic 740 to account for uncertainty in income taxes. The Museum assessed all income tax positions taken where the statute of limitation remained open. The Museum 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, 2015. The Museum does not anticipate any significant increases or decreases to unrecognized income tax benefits during the next 12 months.

Functional Expenses:

The costs of providing the Museum'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 (\$270,000 in 2015 and \$240,000 in 2014), which is included in exhibits, programs and experiences, and to fundraising and membership (\$90,000 in 2015 and \$80,000 in 2014) in the Statements of Functional Expenses.

Advertising:

Costs associated with advertising are expensed when incurred. Advertising expenses, including in-kind services, were \$667,000 in 2015 (\$1,296,000 in 2014).

The Tech Museum of Innovation
Notes to Financial Statements

2. Significant Accounting Policies (continued)

Reclassifications:

Certain prior year balances have been reclassified to conform to current year presentation.

Recent Accounting Pronouncement Not Yet Effective:

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as a practical expedient. ASU 2015-07 becomes effective for the Museum as of July 1, 2017. Early adoption is permitted; however, the Museum has not elected to adopt the standard in these financial statements. The Museum is currently evaluating the effect ASU 2015-07 will have on its financial statements and believes the adoption of the standard will simplify the methodology for valuation of certain of its non-marketable investments and the related footnote disclosures.

3. Pledges Receivable

The following table represents pledges receivable at June 30:

	<u>2015</u>	<u>2014</u>
The Tech 3.0 Campaign	\$ 5,536,000	\$ 6,882,000
Other	<u>1,080,000</u>	<u>2,210,000</u>
Net pledges receivable	<u>\$ 6,616,000</u>	<u>\$ 9,092,000</u>
Receivable in less than one year	\$ 2,807,000	\$ 5,437,000
Receivable in one to five years	<u>4,013,000</u>	<u>3,833,000</u>
Subtotal	6,820,000	9,270,000
Less: allowance for doubtful accounts	(25,000)	(50,000)
Less: unamortized discount to present value	<u>(179,000)</u>	<u>(128,000)</u>
Net pledges receivable	<u>\$ 6,616,000</u>	<u>\$ 9,092,000</u>

The Tech Museum of Innovation
Notes to Financial Statements

3. Pledges Receivable (continued)

In 2012, the Museum established The Tech 3.0 Campaign (the Campaign) with a goal to raise \$50,000,000 by 2017. The amounts raised will be used to fund various programs and functions of the Museum, including construction and ongoing staffing and maintenance of new exhibits. Through June 30, 2015, the Museum has raised \$28,407,000 in relation to the Campaign, of which \$22,744,000 had been received.

4. Investments

Investments consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Unrestricted and temporarily restricted investments:		
Certificates of deposit	\$ 9,167,764	\$ 4,168,428
Equity funds	1,805,724	2,060,561
Money market funds	<u>93,768</u>	<u>1,067,599</u>
Total	<u>\$ 11,067,256</u>	<u>\$ 7,296,588</u>
Permanently restricted investments:		
Equity funds	\$ 7,678,794	\$ 7,311,778
Fixed income funds	3,786,222	3,838,954
Venture capital funds	1,239,690	1,171,474
Commodity fund	<u>-</u>	<u>382,500</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 comprise of the following for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 265,287	\$ 284,725
Net realized and unrealized gains	330,067	2,318,302
Investment management expenses	<u>(41,889)</u>	<u>(43,807)</u>
	<u>\$ 553,465</u>	<u>\$ 2,559,220</u>

The Tech Museum of Innovation
Notes to Financial Statements

4. Investments (continued)

The Museum 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 Museum 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 investments are not necessarily an indication of the risk associated with investing in those investments.

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

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

Level II: 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 III: 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, 2015 under the three-level hierarchy:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Certificates of deposit	\$ 9,167,764	\$ -	\$ -	\$ 9,167,764
Money market funds	93,768	-	-	93,768
Equity funds:				
Domestic	8,981,151	-	-	8,981,151
International	503,367	-	-	503,367
Fixed income funds	-	3,786,222	-	3,786,222
Venture capital funds	-	-	1,239,690	1,239,690
Total	<u>\$ 18,746,050</u>	<u>\$ 3,786,222</u>	<u>\$ 1,239,690</u>	<u>\$ 23,771,962</u>

The Tech Museum of Innovation
Notes to Financial Statements

4. Investments (continued)

The following table presents the investments carried at fair value as of June 30, 2014 under the three-level hierarchy:

	<u>Level I</u>	<u>Level III</u>	<u>Total</u>
Certificates of deposit	\$ 4,168,428	\$ -	\$ 4,168,428
Money market funds	1,067,599	-	1,067,599
Equity funds:			
Domestic	-	8,825,661	8,825,661
International	-	546,678	546,678
Fixed income funds	-	3,838,954	3,838,954
Venture capital funds	-	1,171,474	1,171,474
Commodity fund	-	<u>382,500</u>	<u>382,500</u>
Total	<u>\$ 5,236,027</u>	<u>\$ 14,765,267</u>	<u>\$ 20,001,294</u>

At June 30, 2015, the Museum's investment in equity, fixed income and venture funds includes four funds offered by the same investment firm (five funds at June 30, 2014). The four funds are comprised of cash and cash equivalents, common stock, equities, commodities and a wide range of other investment categories. The redemption frequency of these funds ranges from weekly to monthly, with five business days' notice.

When a determination is made to classify an investment within Level III, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. During 2015, \$3,786,222 of fund investments were transferred from Level III to Level II and \$9,484,518 were transferred from Level III to Level I of the three-level hierarchy. Based on the underlying investment portfolios in the funds, management has determined that the unobservable inputs within each fund are no longer significant to the overall fair value measurement.

The following tables include a roll-forward of the amounts in the Statements of Financial Position for the years ended June 30, 2015 and 2014 (including the change in fair value) for non-marketable securities. The gains and losses in the table below may include changes in fair value on Level III investments due in part to unobservable inputs that are a component of the valuation methodology.

The Tech Museum of Innovation

Notes to Financial Statements

4. Investments (continued)

Investment activity in in the Museum's non-marketable securities consists of the following for the year ended June 30, 2015:

	July 1, 2014	Contributions	Realized and Unrealized Gain (Loss)	Investment Income (Loss)	Distributions	June 30, 2015
Commonfund Institutional Multi-Strategy Equity Fund, LLC	\$ 8,825,661	\$ 195,929	\$ 380,548	\$ 81,876	\$ (502,863)	\$ 8,981,151
Commonfund Institutional Multi-Strategy Bond Fund, LLC	1,920,275	97,550	(38,879)	60,941	(108,616)	1,931,271
Commonfund Institutional High Quality Bond Fund, LLC	1,918,679	-	(18,639)	59,330	(104,419)	1,854,951
Commonfund Institutional International Equity Fund, LLC	546,678	-	(23,942)	8,733	(28,102)	503,367
Commonfund Institutional Commodities LTD	382,500	-	(89,051)	30	(293,479)	-
Legacy Venture V, LLC	720,058	60,000	176,108	(5,625)	(125,117)	825,424
Legacy Venture VII, LLC	28,066	135,002	2,119	(2,932)	-	162,255
University Technology Ventures, LP	<u>423,350</u>	<u>-</u>	<u>(60,364)</u>	<u>-</u>	<u>(110,975)</u>	<u>252,011</u>
Total	<u>\$ 14,765,267</u>	<u>\$ 488,481</u>	<u>\$ 327,900</u>	<u>\$ 202,353</u>	<u>\$ (1,273,571)</u>	<u>\$ 14,510,430</u>

Investment activity in in the Museum's non-marketable securities consists of the following for the year ended June 30, 2014:

	July 1, 2013	Contributions	Realized and Unrealized Gain (Loss)	Investment Income (Loss)	Distributions	June 30, 2014
Commonfund Institutional Multi-Strategy Equity Fund, LLC	\$ 7,684,510	\$ -	\$ 1,726,645	\$ 78,761	\$ (664,255)	\$ 8,825,661
Commonfund Institutional Multi-Strategy Bond Fund, LLC	1,814,010	-	48,899	59,598	(2,232)	1,920,275
Commonfund Institutional High Quality Bond Fund, LLC	1,787,857	36,721	34,531	59,570	-	1,918,679
Commonfund Institutional International Equity Fund, LLC	604,404	-	105,248	16,666	(179,640)	546,678
Commonfund Institutional Commodities LTD	242,701	126,406	13,353	40	-	382,500
Legacy Venture V, LLC	539,739	90,000	187,046	(11,120)	(85,607)	720,058
Legacy Venture VII, LLC	-	30,000	(1,302)	(632)	-	28,066
University Technology Ventures, LP	<u>392,857</u>	<u>-</u>	<u>198,574</u>	<u>-</u>	<u>(168,081)</u>	<u>423,350</u>
Total	<u>\$ 13,066,078</u>	<u>\$ 283,127</u>	<u>\$ 2,312,994</u>	<u>\$ 202,883</u>	<u>\$ (1,099,815)</u>	<u>\$ 14,765,267</u>

The Tech Museum of Innovation
Notes to Financial Statements

4. Investments (continued)

For Level III 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 Museum uses the net asset value method to determine the fair value of the investment. Significant portions of the assets comprising the value of the Museum’s Level III 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 or general partner based on a variety of factors deemed relevant.

Level III Valuation Techniques:

In determining fair value of the venture capital funds, the fund manager or general partner uses various valuation approaches, including market and income approaches. Inputs that are used in determining fair value of an instrument may include price information, credit data, volatility statistics, and other factors. In addition, inputs can be either observable or unobservable.

Level III Valuation Process:

The fair value of venture capital funds is initially based upon the transaction price. The fund manager or general partner relies on inputs such as multiple market price quotations from market makers (either market or indicative levels), original transaction price, recent transactions in the same or similar instruments, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in the financial ratios or cash flows to determine ongoing fair value. Such instruments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the funds or partnerships in the absence of market information. Due to the lack of observable inputs, assumptions used by the fund manager or general partner may significantly impact the resulting fair value.

The following table summarizes the quantitative inputs and assumptions used for investments categorized as Level III under the fair value hierarchy as of June 30, 2015 and 2014.

	<u>Valuation Technique</u>	<u>Unobservable Input</u>
Venture Capital Funds	Market approach	Illiquidity discount

The Tech Museum of Innovation
Notes to Financial Statements

4. Investments (continued)

While the fund manager or general partner believes the valuation methods used 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.

The Museum has commitments to invest additional capital to fund certain of its non-marketable investments. At June 30, 2015, the Museum had future capital call commitments of \$691,000, 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>2015</u>	<u>2014</u>
Exhibits	\$ 12,806,967	\$ 11,483,656
Building and leasehold improvements	11,255,326	10,246,417
Equipment	5,572,852	4,717,052
Construction in progress	<u>2,804,862</u>	<u>2,453,420</u>
	32,440,007	28,900,545
Accumulated depreciation and amortization	<u>(21,381,670)</u>	<u>(21,635,187)</u>
Property, exhibits and equipment, net	<u>\$ 11,058,337</u>	<u>\$ 7,265,358</u>

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

In 2015, the Museum recognized a retirement loss of \$36,000 on exhibits under construction that were capitalized in prior years that would not be placed into service (\$145,000 in 2014).

The Tech Museum of Innovation
Notes to Financial Statements

6. Beneficial Interest in Use of Facility

In 1998, the Museum entered into a 55 year agreement with the City of San Jose to lease its primary facility for \$1 per year. The Museum 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>2015</u>	<u>2014</u>
Total benefit in interest in use of facility	\$ 54,054,000	\$ 55,458,000
Less discount at 6% to net present value	<u>(33,137,844)</u>	<u>(34,401,249)</u>
Net beneficial interest in use of facility	<u>\$ 20,916,156</u>	<u>\$ 21,056,751</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>2015</u>	<u>2014</u>
Rent expense	\$ 1,404,000	\$ 1,404,000
Amortization of discount	<u>(1,263,405)</u>	<u>(1,271,363)</u>
Net decrease in temporarily restricted net assets	<u>\$ 140,595</u>	<u>\$ 132,637</u>

7. Line of Credit

The Museum has a \$2,000,000 line of credit with a bank, which the bank has extended annually. The line of credit expires in January 2017. Borrowings under the agreement bear interest at the bank's prime rate (3.25% at June 30, 2015) and are secured by all deposits and accounts maintained with the bank. The Museum did not borrow any amounts against the line in 2015 (borrowed and repaid \$1,000,000 in 2014).

The Tech Museum of Innovation

Notes to Financial Statements

8. Lease Arrangements

Operating Leases:

The Museum leases a facility in San Jose, California under a non-cancelable operating lease agreement, which expires in December 2018. The facility rent expense was \$50,000 in 2015 (\$47,000 in 2014). Future minimum lease payments under the non-cancelable lease agreements are as follows:

Years ending June 30:	
2016	\$ 52,000
2017	54,000
2018	56,000
2019	<u>28,000</u>
	<u>\$ 190,000</u>

The Museum leases an IMAX projection and sound system under a non-cancelable lease, which was extended through October 2016. The total amount of rent to be paid for the lease is \$225,000, of which the Museum prepaid \$100,000 in 2015 and \$125,000 in 2014. The lease also includes a maintenance agreement, which requires the Museum to incur a minimum amount of maintenance expense annually. The Museum is also subject to additional rent based on 4% of annual gross revenues over \$3,000,000. The Museum did not incur any additional rent in 2015 or 2014. Rent expense under the lease is recognized straight line over the lease term and was \$82,000 in 2015 (\$96,000 in 2014). In October 2014, the agreement was amended to included annual maintenance fees of \$85,000 to be paid on a monthly basis. Total maintenance expense under the lease was \$100,000 in 2015 (\$113,000 in 2014).

As of June 30, 2015, the balance of the prepaid rent was \$109,000 (\$82,000 as of June 30, 2014).

Capital Leases:

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

In 2014, the Museum purchased \$35,700 of equipment under a capital lease arrangement. The lease requires monthly principal and interest payments, with interest at 3% per annum, through June 2019.

The Tech Museum of Innovation

Notes to Financial Statements

8. Lease Arrangements (continued)

Operating Leases: (continued)

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

Years ending June 30,	
2016	\$ 8,000
2017	8,000
2018	8,000
2019	<u>7,000</u>
Total lease payments	31,000
Less: amount representing interest	<u>(1,000)</u>
Capital lease obligation	<u>\$ 30,000</u>

9. Employee Retirement Plans

The Museum has a defined contribution retirement plan for employees meeting certain employment service requirements. Eligible employees may elect to contribute to the plan and the Museum may make qualified non-elective discretionary contributions. The Museum did not make any contributions to the plan in 2015 or 2014.

In 1999, the Museum initiated a key employee option plan (the Option Plan) whereby selected employees entered into pre-tax compensation reduction option agreements with the Museum, 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 funds were created with monies contributed by the Museum and employees as specified in their respective compensation reduction agreements. In 1999, the Museum awarded options to four employees, all of which were exercisable. The Museum subsequently froze participation in the Option Plan. In 2014, the last employee remaining exercised her option, causing the Option Plan to terminate. Accrued expenses at June 30, 2014 included \$12,000 associated with the Option Plan.

The Tech Museum of Innovation
Notes to Financial Statements

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>2015</u>	<u>2014</u>
Beneficial interest in use of facility (time restriction)	\$ 20,916,156	\$ 21,056,751
Special projects (time and purpose restrictions)	296,602	648,345
Operations (time and purpose restrictions)	7,021,438	6,636,728
Receivables (time and purpose restrictions)	6,604,828	9,080,946
Undesignated endowment income (time restriction)	<u>2,763,647</u>	<u>2,910,492</u>
	<u>\$ 37,602,671</u>	<u>\$ 40,333,262</u>

Permanently restricted net assets of \$12,715,706 at June 30, 2015 and 2014 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>2015</u>	<u>2014</u>
Beneficial interest in use of facility (time restriction)	\$ 140,595	\$ 132,637
Special projects (time and purpose restrictions)	714,934	1,036,789
Operations (time and purpose restrictions)	11,825,508	7,927,522
Designated endowment income (time restriction)	<u>683,000</u>	<u>648,354</u>
	<u>\$ 13,364,037</u>	<u>\$ 9,745,302</u>

The Tech Museum of Innovation

Notes to Financial Statements

12. Endowment

The Museum'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 Museum'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 Museum 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 Museum 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 Museum 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 Museum 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 Museum;
- (7) The Museum's investment policies.

The Tech Museum of Innovation
Notes to Financial Statements

12. Endowment (continued)

Endowment net assets consist of the following at June 30, 2015:

	<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	-	2,763,473	-	2,763,473
	<u>\$ -</u>	<u>\$ 2,763,473</u>	<u>\$ 12,715,706</u>	<u>\$ 15,479,179</u>

Endowment net assets consist of the following at June 30, 2014:

	<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	-	2,910,492	-	2,910,492
	<u>\$ -</u>	<u>\$ 2,910,492</u>	<u>\$ 12,715,706</u>	<u>\$ 15,626,198</u>

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$ -	\$ 2,910,492	\$ 12,715,706	\$ 15,626,198
Net appreciation	-	535,981	-	535,981
Appropriated for expenditure	-	(683,000)	-	(683,000)
Endowment Net Assets, end of year	<u>\$ -</u>	<u>\$ 2,763,473</u>	<u>\$ 12,715,706</u>	<u>\$ 15,479,179</u>

The Tech Museum of Innovation
Notes to Financial Statements

12. Endowment (continued)

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, beginning of year	\$ -	\$ 1,042,967	\$ 12,715,706	\$ 13,758,673
Net appreciation	-	2,515,879	-	2,515,879
Appropriated for expenditure	-	(648,354)	-	(648,354)
Endowment Net Assets, end of year	<u>\$ -</u>	<u>\$ 2,910,492</u>	<u>\$ 12,715,706</u>	<u>\$ 15,626,198</u>

The Museum has adopted an investment policy for endowment assets with the primary objectives to preserve the real purchasing power of the principal and 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 over a rolling five year period. Additionally, the returns should show favorable, relative performance characteristics.

It is the Museum'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, 2015, the fair value of endowment assets exceeded their cost by \$2,763,473 (\$2,910,492 at June 30, 2014).

The Tech Museum of Innovation

Notes to Financial Statements

13. Related Parties

The Museum'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 \$4,390,000 in 2015 (\$2,778,000 in 2014). Amounts due from the Board and affiliates are \$3,235,000 at June 30, 2015 (\$8,151,000 at June 30, 2014).

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 Museum and available to be issued.