



The Tech Museum of Innovation

Financial Statements

June 30, 2018 and 2017

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

Certified
Public
Accountants



Palo Alto
San Francisco
San Jose
St. Helena

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, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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, 2018 and 2017, and the changes 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, Rimmerman & Co. LLP

San Jose, California
October 26, 2018

The Tech Museum of Innovation Statements of Financial Position

	June 30, 2018				June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Cash and Cash Equivalents	\$ 1,561,711	\$ 4,852,336	\$ -	\$ 6,414,047	\$ 2,195,896	\$ 2,847,538	\$ -	\$ 5,043,434
Grants and Other Receivables	818,784	809,480	-	1,628,264	243,704	560,623	-	804,327
Pledges Receivable, net	161,525	4,330,272	7,839	4,499,636	-	5,277,752	7,839	5,285,591
Prepaid Expenses and Other Assets	365,259	-	-	365,259	475,894	-	-	475,894
Investments	2,184,640	9,414,112	16,707,867	28,306,619	2,048,960	8,551,397	12,707,867	23,308,224
Property, Exhibits and Equipment, net	11,793,363	-	-	11,793,363	11,619,193	-	-	11,619,193
Beneficial Interest in Use of Facilities, net	-	20,764,322	-	20,764,322	-	20,609,153	-	20,609,153
Total assets	\$ 16,885,282	\$ 40,170,522	\$ 16,715,706	\$ 73,771,510	\$ 16,583,647	\$ 37,846,463	\$ 12,715,706	\$ 67,145,816
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable	\$ 1,552,331	\$ -	\$ -	\$ 1,552,331	\$ 697,856	\$ -	\$ -	\$ 697,856
Accrued expenses	589,390	-	-	589,390	500,791	-	-	500,791
Deferred revenue	591,038	-	-	591,038	521,638	-	-	521,638
Capital lease obligation	8,817	-	-	8,817	16,133	-	-	16,133
Total liabilities	2,741,576	-	-	2,741,576	1,736,418	-	-	1,736,418
Commitments (Notes 4 and 9)								
Net Assets								
Unrestricted	14,143,706	-	-	14,143,706	14,847,229	-	-	14,847,229
Temporarily restricted	-	40,170,522	-	40,170,522	-	37,846,463	-	37,846,463
Permanently restricted	-	-	16,715,706	16,715,706	-	-	12,715,706	12,715,706
Total net assets	14,143,706	40,170,522	16,715,706	71,029,934	14,847,229	37,846,463	12,715,706	65,409,398
Total liabilities and net assets	\$ 16,885,282	\$ 40,170,522	\$ 16,715,706	\$ 73,771,510	\$ 16,583,647	\$ 37,846,463	\$ 12,715,706	\$ 67,145,816

See Notes to Financial Statements

The Tech Museum of Innovation
Statements of Activities
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support								
Public support	\$ 1,132,637	\$ -	\$ -	\$ 1,132,637	\$ 1,148,519	\$ -	\$ -	\$ 1,148,519
Contributed support	1,755,615	13,328,024	4,000,000	19,083,639	794,413	9,712,569	-	10,506,982
In-kind contributions	1,287,004	322,620	-	1,609,624	1,002,646	-	-	1,002,646
Donated use of facility	1,236,549	-	-	1,236,549	1,246,028	-	-	1,246,028
Admissions and fees	3,871,341	-	-	3,871,341	3,394,257	-	-	3,394,257
Investment income, net	46,728	1,399,145	-	1,445,873	81,406	1,812,737	-	1,894,143
Rental and other income	1,764,113	-	-	1,764,113	2,005,914	-	-	2,005,914
Net assets released from restrictions	12,725,730	(12,725,730)	-	-	10,737,060	(10,737,060)	-	-
Total revenues and other support	23,819,717	2,324,059	4,000,000	30,143,776	20,410,243	788,246	-	21,198,489
Expenses								
Program services								
Exhibits, programs and experiences	13,386,198	-	-	13,386,198	11,676,884	-	-	11,676,884
Education	2,874,956	-	-	2,874,956	2,023,576	-	-	2,023,576
Visitor services	2,682,249	-	-	2,682,249	2,463,442	-	-	2,463,442
Support services								
Fundraising and membership	2,139,451	-	-	2,139,451	1,980,683	-	-	1,980,683
General and administrative								
Marketing	1,224,291	-	-	1,224,291	1,332,870	-	-	1,332,870
Administration	2,216,095	-	-	2,216,095	1,881,206	-	-	1,881,206
Total expenses	24,523,240	-	-	24,523,240	21,358,661	-	-	21,358,661
Change in Net Assets	(703,523)	2,324,059	4,000,000	5,620,536	(948,418)	788,246	-	(160,172)
Net Assets, beginning of year	14,847,229	37,846,463	12,715,706	65,409,398	15,795,647	37,058,217	12,715,706	65,569,570
Net Assets, end of year	<u>\$ 14,143,706</u>	<u>\$ 40,170,522</u>	<u>\$ 16,715,706</u>	<u>\$ 71,029,934</u>	<u>\$ 14,847,229</u>	<u>\$ 37,846,463</u>	<u>\$ 12,715,706</u>	<u>\$ 65,409,398</u>

See Notes to Financial Statements

The Tech Museum of Innovation
Statement of Functional Expenses
Year Ended June 30, 2018

	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	\$ 3,494,549	\$ 1,134,670	\$ 1,475,159	\$ 6,104,378	\$ 937,306	\$ 606,608	\$ 1,014,700	\$ 2,558,614	\$ 8,662,992
Payroll Taxes	244,441	78,230	104,749	427,420	66,973	42,389	71,056	180,418	607,838
Benefits	308,673	93,760	138,000	540,433	81,440	52,297	84,375	218,112	758,545
Professional Fees	320,061	112,711	6,620	439,392	35,000	197,253	487,723	719,976	1,159,368
Materials and Supplies	715,846	73,318	49,461	838,625	37,736	3,360	46,534	87,630	926,255
Advertising and Public Relations	604,135	15,676	27,119	646,930	26,174	184,158	10,120	220,452	867,382
Fees and Services	195,827	67,505	45,694	309,026	9,265	26,112	88,322	123,699	432,725
Royalties	369,815	-	-	369,815	-	-	-	-	369,815
Bankcard Fees	138,071	-	-	138,071	-	-	87	87	138,158
In-Kind Contributions	443,488	152,237	15,949	611,674	7,733	-	127,260	134,993	746,667
Travel and Transportation	56,114	18,239	2,233	76,586	13,181	3,051	25,251	41,483	118,069
Occupancy	864,036	163,807	593,579	1,621,422	120,984	69,867	100,060	290,911	1,912,333
Building and Equipment Rental	655,212	35,918	648	691,778	5,211	-	2,041	7,252	699,030
Depreciation and Amortization	3,333,859	66,635	38,322	3,438,816	19,582	14,647	18,287	52,516	3,491,332
Donated Rent	1,224,049	91,359	39,172	1,354,580	37,065	12,355	-	49,420	1,404,000
Tech for Global Good	312,491	-	-	312,491	588,360	-	-	588,360	900,851
Tech Challenge and Related Expenses	16,586	740,933	10,355	767,874	31,620	1,563	-	33,183	801,057
Insurance	44,757	10,623	40,108	95,488	8,226	4,798	6,169	19,193	114,681
Other	44,188	19,335	95,081	158,604	113,595	5,833	134,110	253,538	412,142
Total expenses	\$ 13,386,198	\$ 2,874,956	\$ 2,682,249	\$ 18,943,403	\$ 2,139,451	\$ 1,224,291	\$ 2,216,095	\$ 5,579,837	\$ 24,523,240
Percent of Total Expenses	54%	12%	11%	77%	9%	5%	9%	23%	100%

See Notes to Financial Statements

The Tech Museum of Innovation
Statement of Functional Expenses
Year Ended June 30, 2017

	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	\$ 3,200,492	\$ 971,374	\$ 1,366,430	\$ 5,538,296	\$ 966,126	\$ 685,919	\$ 936,075	\$ 2,588,120	\$ 8,126,416
Payroll Taxes	219,264	67,471	94,606	381,341	65,738	47,560	65,026	178,324	559,665
Benefits	282,981	85,361	119,032	487,374	83,374	60,767	78,797	222,938	710,312
Professional Fees	191,348	15,937	-	207,285	-	122,950	384,362	507,312	714,597
Materials and Supplies	458,539	61,148	49,506	569,193	20,708	9,984	35,862	66,554	635,747
Advertising and Public Relations	66,616	33,901	23,531	124,048	49,211	260,538	6,196	315,945	439,993
Fees and Services	168,935	108,829	37,568	315,332	13,936	34,335	92,561	140,832	456,164
Royalties	323,918	-	-	323,918	-	-	-	-	323,918
Bankcard Fees	135,477	-	-	135,477	-	-	-	-	135,477
In-Kind Contributions	122,785	85,315	22,840	230,940	40,502	-	54,553	95,055	325,995
Travel and Transportation	56,822	11,460	13,831	82,113	14,429	3,517	13,370	31,316	113,429
Occupancy	760,981	156,731	547,521	1,465,233	112,335	64,722	86,113	263,170	1,728,403
Building and Equipment Rental	142,570	32,808	788	176,166	2,130	-	1,925	4,055	180,221
Depreciation and Amortization	3,046,493	57,233	33,285	3,137,011	10,946	13,135	15,324	39,405	3,176,416
Donated Rent	1,224,049	91,359	39,172	1,354,580	37,065	12,355	-	49,420	1,404,000
Tech Awards	1,137,191	-	-	1,137,191	419,162	-	-	419,162	1,556,353
Tech Challenge and Related Expenses	9,338	211,415	3,974	224,727	26,285	1,664	-	27,949	252,676
Insurance	41,978	11,384	40,556	93,918	8,538	4,981	6,403	19,922	113,840
Other	87,107	21,850	70,802	179,759	110,198	10,443	104,639	225,280	405,039
Total expenses	\$ 11,676,884	\$ 2,023,576	\$ 2,463,442	\$ 16,163,902	\$ 1,980,683	\$ 1,332,870	\$ 1,881,206	\$ 5,194,759	\$ 21,358,661
Percent of Total Expenses	55%	9%	12%	76%	9%	6%	9%	24%	100%

See Notes to Financial Statements

The Tech Museum of Innovation
Statements of Cash Flows

	Years Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	\$ 5,620,536	\$ (160,172)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,491,332	3,176,416
In-kind donation of property, exhibits and equipment	(145,761)	(300,320)
In-kind donation of other assets	(69,922)	(143,080)
In-kind donation of beneficial interest in use of facility	(322,620)	-
In-kind rent expense related to donated use of facility	167,451	157,972
Net realized and unrealized gain on investments	(1,183,925)	(1,665,317)
Change in discount on pledges receivable	49,989	(130,072)
Contributions restricted for long term investment	(4,000,000)	-
Retirement of exhibits	-	28,958
Changes in operating assets and liabilities:		
Grants and other receivables	(823,937)	(200,761)
Pledges receivable	735,966	3,678,958
Prepaid expenses and other assets	180,557	(26,142)
Accounts payable and accrued expenses	(270,733)	(333,024)
Deferred revenue	69,400	(94,299)
Net cash provided by operating activities	<u>3,498,333</u>	<u>3,989,117</u>
Cash Flows from Investing Activities:		
Net proceeds from sale and distribution of investments	785,329	765,204
Purchase of investments	(4,599,799)	(450,047)
Purchase of property, exhibits and equipment	(2,305,934)	(1,182,574)
Net cash used in investing activities	<u>(6,120,404)</u>	<u>(867,417)</u>
Cash Flows from Financing Activities:		
Contributions received for long term investment	4,000,000	-
Payments on capital lease obligation	(7,316)	(7,099)
Net cash provided by (used in) financing activities	<u>3,992,684</u>	<u>(7,099)</u>
Net increase in cash and cash equivalents	1,370,613	3,114,601
Cash and Cash Equivalents, beginning of year	5,043,434	1,928,833
Cash and Cash Equivalents, end of year	<u>\$ 6,414,047</u>	<u>\$ 5,043,434</u>
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Amounts payable for construction in progress	<u>\$ 1,213,807</u>	<u>\$ 288,587</u>

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 its mission by engaging visitors in hands-on learning experiences involving science and technology, through high-quality professional development for teachers and by making its facilities available for teacher training, tech industry research and other community convening. Through its exhibits, programs and facilities, the Museum aims to inspire learning and invigorate innovation locally, nationally and globally.

The Museum's learning experiences include interactive exhibits, hands-on science labs, after-school activities and standards-based educational IMAX films. The Museum also hosts two annual signature programs. The Tech Challenge is a team competition that inspires thousands of students in grades 4-12 to design and build devices that solve a real-world problem. For 31 years, The Tech Challenge has connected with various 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 for Global Good, an evolution of The Tech Awards, aims to inspire young people to use technology to solve global challenges by connecting with people doing just that around the world.

The Museum hosts as many as 500,000 people a year in its galleries and programs and has approximately 7,000-member households.

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 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.

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Basis of Presentation: (continued)

Temporarily restricted net assets are those for which use is restricted by the donor based on time or purpose. Generally, these funds will be expended for a specified purpose or over a period of time and are 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, other support 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 revenues 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 stated 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.

Admissions are recorded when received. Membership dues are deferred upon receipt and recognized ratably over the membership period, generally for one to two years, 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.

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

In-Kind Donations:

The Museum records various types of in-kind donations including professional services, tangible assets, use of tangible assets and marketable securities. Donated marketable securities are immediately sold and the Museum accounts for the proceeds as contributed support on the Statements of Activities. 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 contributions are offset by like amounts of expenses or, in the case of long-term assets, over the period benefited.

In fiscal 2018, the Museum recognized in-kind contribution revenue of \$1,610,000 (\$1,003,000 in fiscal 2017). Expenses related to these in-kind contributions are recognized in the Statements of Functional Expenses as in-kind contributions of \$747,000 (\$326,000 in fiscal 2017), the Tech Challenge expense of \$318,000 and The Tech for Global Good expense of \$7,000 (Tech Awards expense of \$234,000 in fiscal 2017). The remaining \$538,000 represents donated property, exhibits and equipment and other assets, and an increase in beneficial interest in use of facility (\$443,000 represents donated property, exhibits and equipment and other assets in fiscal 2017).

The Museum also 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 important contributed time has not been determined and is not reflected in the accompanying financial statements.

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.

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

2. Significant Accounting Policies (continued)

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.

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 investments 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.

Fair Value of Measurements:

The Museum accounts for investments under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*. The Museum categorizes its assets and liabilities 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 assets and liabilities are not necessarily an indication of the risk associated with those assets or liabilities.

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Fair Value of Measurements: (continued)

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 asset or liability.
- Level III:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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, 2018 and 2017, the Museum applied a discount rate of 2.25%.

The Museum reports equity funds and fixed income funds for which fair value is measured using net asset value (NAV) per share as a practical expedient in accordance with Topic 820. Investments valued using NAV are reported outside of the fair value hierarchy.

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.

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

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

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. Construction in progress is not depreciated until placed into service. 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.

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 at June 30, 2018. 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 are filed. The Museum's state exempt organization business income tax returns are subject to examination generally for four years after they are filed.

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Income Taxes (continued)

The Museum applies the provisions set forth in FASB ASC Topic 740, *Income Taxes*, to account for the uncertainty in income taxes. The Museum has assessed all income tax positions taken where the statute of limitation remains open. The Museum believes that its tax filing positions will be sustained upon tax examination; therefore, no liability for unrecognized income tax benefits has been recorded through June 30, 2018. 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.

Costs of \$392,000 incurred for the Tech Awards Gala in fiscal 2017 were considered joint costs. Costs of \$294,000 were allocated to the Tech Awards program, included in exhibits, programs and experiences, and costs of \$98,000 were allocated to fundraising and membership in the 2017 Statement of Functional Expenses. There were no joint costs in fiscal 2018.

Advertising:

Costs associated with advertising are expensed when incurred. Advertising expenses, including in-kind services, were \$1,016,000 in fiscal 2018 (\$628,000 in fiscal 2017).

Recent Accounting Pronouncements Not Yet Effective:

Presentation of the Financial Statements:

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes the financial reporting for not-for-profit organizations by reducing the number of net asset classes from three to two ("with donor restrictions" and "without donor restrictions"); requiring expenses to be reported by function and nature; and providing disclosures on the entity's operating measures and liquidity. ASU 2016-14 is effective for the Museum as of July 1, 2018 and requires a retrospective transition approach for its adoption. The Museum is currently evaluating the impact of ASU 2016-14 on its financial statements and related disclosures.

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective: (continued)

Leases:

In February 2016, the FASB issued FASB ASC Topic 842, *Leases*. This standard requires all entities that lease assets under leases with terms of more than 12 months to capitalize the assets and related lease liabilities on the Statement of Financial Position. Topic 842 is effective for the Museum as of July 1, 2020 and requires the use of a modified retrospective transition approach for its adoption. Management expects the assets leased under operating leases, similar to the leases disclosed in Note 9 to the financial statements, will be capitalized together with the related lease obligations on the Statement of Financial Position upon the adoption of Topic 842.

Contributions:

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies the definition of an exchange transaction, and provides guidance for evaluating whether contributions are unconditional or conditional. ASU 2018-08 is effective for the Museum as of July 1, 2019. ASU 2018-09 allows a retrospective or modified prospective transition approach for its adoption. The Museum believes ASU 2018-08 will have a minimal impact on its financial statements and related disclosures.

Fair Value Disclosures:

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*. The standard eliminates certain disclosures and modifies others about recurring and nonrecurring fair value measurements that are required by Topic 820. ASU 2018-13 is expected to reduce cost of preparing Topic 820 disclosures, while providing more decision-useful information for financial statements users. The standard is effective for the Museum as of July 1, 2020 and early adoption is permitted. The Museum is currently evaluating the impact of ASU 2018-13 on its fair value measurement disclosures.

The Tech Museum of Innovation
Notes to Financial Statements

3. Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	<u>2018</u>	<u>2017</u>
The Tech 3.0 Campaign	\$ 4,120,000	\$ 4,142,000
Other	<u>380,000</u>	<u>1,144,000</u>
Net pledges receivable	<u>\$ 4,500,000</u>	<u>\$ 5,286,000</u>
Receivable in less than one year	\$ 1,585,000	\$ 2,111,000
Receivable in one to five years	2,570,000	2,890,000
Greater than five years	<u>600,000</u>	<u>400,000</u>
	4,755,000	5,491,000
Less: allowance for doubtful accounts	(25,000)	(25,000)
Less: unamortized discount to present value	<u>(230,000)</u>	<u>(180,000)</u>
Net pledges receivable	<u>\$ 4,500,000</u>	<u>\$ 5,286,000</u>

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, 2018, the Museum has raised \$49,780,000 from the Tech 3.0 Campaign, of which \$45,660,000 had been received.

4. Investments

Investments consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Unrestricted and temporarily restricted investments:		
Certificates of deposit	\$ 8,489,012	\$ 7,927,287
Equity funds	2,929,719	2,067,002
Money market funds	<u>180,021</u>	<u>606,068</u>
Total	<u>\$ 11,598,752</u>	<u>\$ 10,600,357</u>
Permanently restricted investments:		
Equity funds	\$ 10,256,208	\$ 7,618,741
Fixed income funds	4,511,331	3,621,451
Venture capital funds	<u>1,940,328</u>	<u>1,467,675</u>
Total	<u>\$ 16,707,867</u>	<u>\$ 12,707,867</u>

The Tech Museum of Innovation
Notes to Financial Statements

4. Investments (continued)

Investments are valued as follows at June 30:

	<u>2018</u>	<u>2017</u>
NAV	\$ 15,465,269	\$ 11,496,477
Fair value	<u>12,841,350</u>	<u>11,811,747</u>
Total	<u>\$ 28,306,619</u>	<u>\$ 23,308,224</u>

Valued at Fair Value:

The following table presents the investments carried at fair value as of June 30, 2018 under the three-level hierarchy:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Certificates of deposit	\$ 8,489,012	\$ -	\$ -	\$ 8,489,012
Money market funds	180,021	-	-	180,021
Fixed income fund	-	2,231,989	-	2,231,989
Venture capital funds	-	-	<u>1,940,328</u>	<u>1,940,328</u>
Total	<u>\$ 8,669,033</u>	<u>\$ 2,231,989</u>	<u>\$ 1,940,328</u>	<u>\$ 12,841,350</u>

The following table presents the investments carried at fair value as of June 30, 2017 under the three-level hierarchy:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Certificates of deposit	\$ 7,927,287	\$ -	\$ -	\$ 7,927,287
Money market funds	606,068	-	-	606,068
Fixed income fund	-	1,810,717	-	1,810,717
Venture capital funds	-	-	<u>1,467,675</u>	<u>1,467,675</u>
Total	<u>\$ 8,533,355</u>	<u>\$ 1,810,717</u>	<u>\$ 1,467,675</u>	<u>\$ 11,811,747</u>

The Tech Museum of Innovation

Notes to Financial Statements

4. Investments (continued)

Valued at Fair Value: (continued)

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, 2018 and 2017.

	<u>Valuation Technique</u>	<u>Unobservable Input</u>
Venture capital funds	Market approach	Illiquidity discount

Level III Valuation Techniques:

In determining fair value of the venture capital funds, the fund manager 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 relies on inputs such as multiple market price quotations from market makers (either market or indicative levels), 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 are adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the funds in the absence of market information. Due to the lack of observable inputs, assumptions used by the fund manager may significantly impact the resulting fair value.

While the fund manager 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 venture capital funds could result in a different estimate of fair value at each 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 Tech Museum of Innovation
Notes to Financial Statements

4. Investments (continued)

Valued at Fair Value: (continued)

The following tables include a roll-forward of the amounts in the Statements of Financial Position for fiscal 2018 and 2017 (including the change in fair value) for Level III investments. The gains and losses in the table below may include changes in fair value due in part to unobservable inputs that are a component of the valuation methodology.

Investment activity in in the Museum’s Level III investments consists of the following for fiscal 2018:

	July 1, 2017	Contributions	Realized and Unrealized Gain	Investment Loss	Distributions	June 30, 2018
Venture capital funds	\$ 1,467,675	\$ 337,500	\$ 270,732	\$ (13,596)	\$ (121,983)	\$ 1,940,328

Investment activity in in the Museum’s Level III investments consists of the following for fiscal 2017:

	July 1, 2016	Contributions	Realized and Unrealized Loss	Investment Loss	Distributions	June 30, 2017
Venture capital funds	\$ 1,179,656	\$ 255,000	\$ 105,616	\$ (10,507)	\$ (62,090)	\$ 1,467,675

Valued Using NAV:

Investments valued using NAV as a practical expedient are as follows:

	Fair Value at June 30, 2018	Fair Value at June 30, 2017	Redemption Frequency	Redemption Notice
Equity funds	\$ 13,185,927	\$ 9,685,743	Daily - Annually	1 - 90 days
Fixed income funds	2,279,342	1,810,734	Daily - Monthly	1 - 5 days
Total	\$ 15,465,269	\$ 11,496,477		

The equity funds include investments in actively managed funds that invest in stocks or other securities issued by companies in domestic and foreign markets. The fixed income funds include investments in actively managed funds that invest in government, corporate or sovereign bonds. Investments are held within a commingled trust or limited partnership structure.

The Tech Museum of Innovation
Notes to Financial Statements

4. Investments (continued)

Remaining Capital Commitments:

The Museum has commitments to invest additional capital to fund certain of its non-marketable investments. At June 30, 2018, the Museum had future capital call commitments of \$676,328, which are payable when required by the fund manager.

5. Investment Income

Investment income represents earned income, entity losses, 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.

Net investment income is comprised of the following for fiscal:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 307,747	\$ 273,204
Net realized and unrealized gain	1,183,925	1,665,317
Investment management expenses	<u>(45,799)</u>	<u>(44,378)</u>
	<u>\$ 1,445,873</u>	<u>\$ 1,894,143</u>

6. Property, Exhibits and Equipment

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

	<u>2018</u>	<u>2017</u>
Exhibits	\$ 15,782,146	\$ 14,206,741
Building and leasehold improvements	11,814,490	11,287,282
Equipment	4,776,995	6,314,809
Construction in progress	1,917,387	779,538
Computer software	<u>11,000</u>	<u>11,000</u>
	34,302,018	32,599,370
Accumulated depreciation and amortization	<u>(22,508,655)</u>	<u>(20,980,177)</u>
Property, exhibits and equipment, net	<u>\$ 11,793,363</u>	<u>\$ 11,619,193</u>

The Tech Museum of Innovation
Notes to Financial Statements

6. Property, Exhibits and Equipment (continued)

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.

7. Beneficial Interest in Use of Facilities

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>2018</u>	<u>2017</u>
Total benefit in interest in use of facility	\$ 49,842,000	\$ 51,246,000
Less discount at 6% to net present value	<u>(29,400,298)</u>	<u>(30,636,847)</u>
Net beneficial interest in use of facility	<u>\$ 20,441,702</u>	<u>\$ 20,609,153</u>

The following amounts have been recognized in the Statements of Activities in connection with the beneficial interest in use of facility for fiscal:

	<u>2018</u>	<u>2017</u>
Rent expense	\$ 1,404,000	\$ 1,404,000
Amortization of discount	<u>(1,236,549)</u>	<u>(1,246,028)</u>
Net decrease in temporarily restricted net assets	<u>\$ 167,541</u>	<u>\$ 157,972</u>

In fiscal 2018, the Museum entered into agreement to lease additional space for a four-month period during fiscal 2019 that increased the beneficial interest in use of facilities by \$322,620, which will be amortized over the lease term to revenue as donated use of facility.

The Tech Museum of Innovation

Notes to Financial Statements

8. 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 matures in January 2019. Borrowings under the agreement bear interest at the bank's prime rate plus 1% per annum (6.00% at June 30, 2018) and are unsecured. The Museum did not borrow any amounts against the line in 2018 or 2017.

9. 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 \$56,000 in fiscal 2018 (\$54,000 in fiscal 2017).

The Museum leased an IMAX projection and sound system under a non-cancelable lease (the IMAX Lease) with a term which was to expire in October 2018. For fiscal 2018, total rent expense under the lease was \$87,000 (\$84,000 in fiscal 2017). The lease included a maintenance agreement, which required the Museum to incur a minimum amount of maintenance expense annually. Total maintenance expense under the lease was \$97,000 in fiscal 2018 (\$93,000 in fiscal 2017). The Museum was also subject to additional rent based on 4% of annual gross IMAX revenues over \$3,000,000. The Museum did not incur any additional rent in fiscal 2018 or 2017.

The IMAX Lease was cancelled in May 2018 when the Museum purchased a laser dome theater system for \$1,600,000 for the development and operation of a state of the art IMAX theater, which has been recorded as construction in progress within property, exhibits and equipment at June 30, 2018. The purchase agreement allows the Museum to operate the theater under a ten-year license agreement with IMAX Theatres International Limited (IMAX). The Museum has the option to renew the license for an additional five years upon payment of the amount IMAX estimates it would incur to refurbish and upgrade the theater system to the then current IMAX technology. The agreement also includes an annual maintenance fee of \$55,000 per year. The Museum is also subject to additional payments based on 5% of annual gross IMAX revenues over \$1,000,000.

The Museum leases an exhibit (the Bodyworlds Exhibit) under a non-cancelable operating lease agreement, which expires in June 2027. The exhibit rent expense was \$395,000 in fiscal 2018.

The Tech Museum of Innovation
Notes to Financial Statements

9. Lease Arrangements (continued)

Operating Leases: (continued)

Future minimum lease payments under these operating leases are as follows:

Years ending June 30,	
2019	\$ 423,000
2020	395,000
2021	395,000
2022	395,000
2023	395,000
Thereafter	<u>1,595,000</u>
	<u>\$ 3,598,000</u>

Capital Lease:

In 2014, the Museum purchased \$36,000 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 net book value of the equipment financed was \$9,000 at June 30, 2018. In July 2018, the Museum purchased an additional \$11,000 of equipment under a capital lease agreement with no interest payments through July 2021.

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

Years ending June 30,	
2019	\$ 11,200
2020	3,800
2021	3,800
2022	<u>300</u>
	<u>\$ 19,100</u>

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>2018</u>	<u>2017</u>
Beneficial interest in use of facility (time restriction)	\$ 20,764,322	\$ 20,609,153
Operations (time and purpose restrictions)	10,859,509	8,489,225
Receivables (time and purpose restrictions)	5,139,752	5,846,214
Undesignated endowment income (time restriction)	<u>3,406,939</u>	<u>2,901,871</u>
	<u>\$ 40,170,522</u>	<u>\$ 37,846,463</u>

Permanently restricted net assets of \$16,715,706 at June 30, 2018 (\$12,715,706 at June 30, 2017) 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 fiscal:

	<u>2018</u>	<u>2017</u>
Operations (time and purpose restrictions)	\$ 11,808,279	\$ 9,822,110
Designated endowment income (time restriction)	750,000	756,978
Beneficial interest in use of facility (time restriction)	<u>167,451</u>	<u>157,972</u>
	<u>\$ 12,725,730</u>	<u>\$ 10,737,060</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, 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 endowment. The remaining portion of the donor-restricted endowment 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 assets:

- (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.

Endowment assets consist of the following at June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted				
Endowment Funds	\$ -	\$ -	\$ 16,715,706	\$ 16,715,706
Undesignated Endowment				
Income	-	3,406,939	-	3,406,939
	<u>\$ -</u>	<u>\$ 3,406,939</u>	<u>\$ 16,715,706</u>	<u>\$ 20,122,645</u>

The Tech Museum of Innovation
Notes to Financial Statements

12. Endowment (continued)

Endowment assets consist of the following at June 30, 2017:

	<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	-	2,901,871	-	2,901,871
	<u>\$ -</u>	<u>\$ 2,901,871</u>	<u>\$ 12,715,706</u>	<u>\$ 15,617,577</u>

Changes in endowment assets for fiscal 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets, beginning of year	\$ -	\$ 2,901,871	\$ 12,715,706	\$ 15,617,577
Contribution	-	-	4,000,000	4,000,000
Net appreciation	-	1,255,068	-	1,255,068
Appropriated for expenditure	-	(750,000)	-	(750,000)
Endowment Assets, end of year	<u>\$ -</u>	<u>\$ 3,406,939</u>	<u>\$ 16,715,706</u>	<u>\$ 20,122,645</u>

Changes in endowment assets for fiscal 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets, beginning of year	\$ -	\$ 1,855,736	\$ 12,715,706	\$ 14,571,442
Net appreciation	-	1,803,113	-	1,803,113
Appropriated for expenditure	-	(756,978)	-	(756,978)
Endowment Assets, end of year	<u>\$ -</u>	<u>\$ 2,901,871</u>	<u>\$ 12,715,706</u>	<u>\$ 15,617,577</u>

The Tech Museum of Innovation

Notes to Financial Statements

12. Endowment (continued)

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 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 to be less than the amount the donor or SPMIFA require to be held in perpetuity.

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 \$10,439,000 in fiscal 2018 (\$2,453,000 in fiscal 2017). Amounts due from the Board and affiliates are \$332,000 at June 30, 2018 (\$992,000 at June 30, 2017).

14. Employee Benefit Plan

The Museum has a defined contribution retirement plan covering substantially all employees. The purpose of the plan is to provide retirement benefits for participating employees on a tax-deferred basis. The Museum did not make contributions to the plan in fiscal 2018 or 2017.

15. 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.