

THE TECH MUSEUM OF INNOVATION

**Financial Statements
and**

**Reports of Independent Certified Public Accountants
Required by OMB Circular A-133**

December 31, 1996 and 1995

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Report of Independent Certified Public Accountants



Board of Directors
The Tech Museum of Innovation

We have audited the accompanying statements of financial position of The Tech Museum of Innovation (a California nonprofit corporation) as of December 31, 1996 and 1995, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Tech Museum of Innovation as of December 31, 1996 and 1995, and the change in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As described in Note B to the financial statements, the Organization has adopted the provisions of 1996 AICPA *Audit and Accounting Guide for Not-For-Profit Organizations* in 1996. In 1995, the Organization adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Made* and has presented the financial statements as prescribed by SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 28, 1997 on our consideration of the Organization's internal control structure and a report dated March 28, 1997 on its compliance with laws and regulations.

A handwritten signature in cursive script that reads "Grant Thornton LLP".

San Jose, California
March 28, 1997

The Tech Museum of Innovation

STATEMENTS OF FINANCIAL POSITION

December 31,

	1996			1995				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Cash	\$ 1,550	\$ 670,448	\$ -	\$ 671,998	\$ 1,450	\$ 535,819	\$ -	\$ 537,269
Receivable from the sale of investments	-	93,521	-	93,521	-	25,487	-	25,487
Investments	-	8,138,435	-	8,138,435	-	4,865,643	-	4,865,643
Contributed support receivable, net	130,965	6,253,885	-	6,384,850	131,033	4,153,429	-	4,284,462
Public support receivable, net	-	1,414,306	-	1,414,306	-	2,713,966	-	2,713,966
Receivable for contributed use of facility, net	-	20,369,863	-	20,369,863	-	-	-	-
Grants receivable, net	75,457	4,417	-	79,874	58,044	9,755	-	67,799
Prepays and other	767,500	12,843	-	780,343	205,000	13,254	-	218,254
Inventory	88,007	-	-	88,007	51,996	-	-	51,996
Property and equipment, net	464,056	-	-	464,056	425,304	-	-	425,304
Construction-in-progress	1,172,723	-	-	1,172,723	259,016	-	-	259,016
Beneficial interest in trust	-	-	120,593	120,593	-	-	106,900	106,900
	<u>\$ 2,700,258</u>	<u>\$ 36,957,718</u>	<u>\$ 120,593</u>	<u>\$ 39,778,569</u>	<u>\$ 1,131,843</u>	<u>\$ 12,317,353</u>	<u>\$ 106,900</u>	<u>\$ 13,556,096</u>
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable and accrued expenses	\$ 232,129	\$ 132,510	\$ -	\$ 364,639	\$ 86,146	\$ 155,253	\$ -	\$ 241,399
Payable (receivable) between net asset categories	(58,170)	37,577	20,593	-	367,500	(374,400)	6,900	-
Total liabilities	173,959	170,087	20,593	364,639	453,646	(219,147)	6,900	241,399
Net assets								
Unrestricted	889,520	-	-	889,520	(206,123)	-	-	(206,123)
Undesignated	-	-	-	-	-	-	-	-
Designated for property, equipment and construction in progress	1,636,779	-	-	1,636,779	884,320	-	-	884,320
Temporarily restricted	-	36,787,631	-	36,787,631	-	12,536,500	-	12,536,500
Permanently restricted	-	-	100,000	100,000	-	-	100,000	100,000
Total net assets	<u>2,526,299</u>	<u>36,787,631</u>	<u>100,000</u>	<u>39,413,930</u>	<u>678,197</u>	<u>12,536,500</u>	<u>100,000</u>	<u>13,314,697</u>
	<u>\$ 2,700,258</u>	<u>\$ 36,957,718</u>	<u>\$ 120,593</u>	<u>\$ 39,778,569</u>	<u>\$ 1,131,843</u>	<u>\$ 12,317,353</u>	<u>\$ 106,900</u>	<u>\$ 13,556,096</u>

The accompanying notes are an integral part of these statements.

The Tech Museum of Innovation

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

Years ended December 31,

	1996			1995				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributed support, net	\$ 1,220,995	\$ 6,101,448	\$ -	\$ 7,322,443	\$ 837,705	\$ 6,615,781	\$ 30,000	\$ 7,483,486
Donated property, services and rent	412,427	2,943,880	-	3,356,307	544,911	187,696	-	732,607
Admissions and fees	558,220	-	-	558,220	344,192	-	-	344,192
Special Events, net of expenses of \$346,177 and \$68,751 in 1996 and 1995	274,985	-	-	274,985	116,354	-	-	116,354
Store revenue	200,667	-	-	200,667	164,484	-	-	164,484
Federal awards	237,986	-	-	237,986	140,602	-	-	140,602
Interest income	341,891	9,026	-	350,917	164,400	2,459	-	166,859
Net investment realized/unrealized gain (loss)	(7,450)	14,205	-	6,755	34,120	15,612	-	49,732
Other income	10,454	-	-	10,454	6,907	-	-	6,907
Net assets released from restriction:	4,250,687	(4,250,687)	-	-	2,786,284	(2,786,284)	-	-
Total support and revenue	7,500,852	4,817,872	-	12,318,734	5,139,959	4,035,264	30,000	9,205,223
Expenses:								
Program services								
Museum project	437,483	-	-	437,483	338,201	-	-	338,201
Exhibits, programs, and experiences	2,398,223	-	-	2,398,223	2,975,548	-	-	2,975,548
Visitor services	384,197	-	-	384,197	533,205	-	-	533,205
Education	292,408	-	-	292,408	351,602	-	-	351,602
Supporting services								
Development and public relations	1,341,053	-	-	1,341,053	727,883	-	-	727,883
Management and general	799,396	-	-	799,396	440,417	-	-	440,417
Total expenses	5,652,760	-	-	5,652,760	5,366,856	-	-	5,366,856
Change in net assets before cumulative effect of change in accounting principle	1,848,102	4,817,872	-	6,665,974	(226,897)	4,035,264	30,000	3,838,367
Cumulative effect of change in accounting principles	-	19,433,259	-	19,433,259	7,225	6,673,689	(1,297)	6,679,617
Change in net assets	1,848,102	24,251,131	-	26,099,233	(219,672)	10,708,953	28,703	10,517,984
Net assets at beginning of year	678,197	12,536,500	100,000	13,314,697	897,869	1,827,547	71,297	2,796,713
Net assets at end of year	\$ 2,526,299	\$ 36,787,631	\$ 100,000	\$ 39,413,930	\$ 678,197	\$ 12,536,500	\$ 100,000	\$ 13,314,697

The accompanying notes are an integral part of these statements.

The Tech Museum of Innovation

STATEMENTS OF CASH FLOWS

Years ended December 31,

	1996	1995
Cash flows from operating activities:		
Change in net assets	\$ 26,099,233	\$ 10,517,984
Cumulative effect of change in accounting principles	(19,433,259)	(6,679,617)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	198,430	1,115,972
Provision for estimated uncollectible contributed support	120,733	235,403
Contributions restricted for long-term investment	(9,166,061)	(7,068,880)
Changes in operating assets and liabilities:		
Support receivables	(1,858,065)	(1,494,441)
Grants receivable and inventory	(48,086)	16,951
Prepays and other	(562,089)	(200,000)
Net change in unrealized gains	(14,205)	(15,612)
Accounts payable and accrued expenses	123,240	14,339
Net cash used in operating activities	(4,540,129)	(3,557,901)
Cash flows from investing activities:		
Additions to property and equipment and construction-in-progress	(1,150,889)	(288,292)
Acquisitions of investments	(10,306,668)	(9,666,525)
Proceeds from sales of investments	6,966,354	5,942,107
Net cash used in investing activities	(4,491,203)	(4,012,710)
Cash flows from financing activities:		
Contributions restricted for long-term investment	9,166,061	7,068,880
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	134,729	(501,731)
Cash and cash equivalents, beginning of year	537,269	1,039,000
Cash and cash equivalents, end of year	\$ 671,998	\$ 537,269

Supplemental schedule of noncash investing activities:

In 1996, the Organization received donations of equipment of approximately \$1,000,000, and investments of approximately \$338,000.

In 1995, the Organization received donations of equipment of approximately \$192,000 and investments of approximately \$3,200,000.

The accompanying notes are an integral part of these statements.

The Tech Museum of Innovation
NOTES TO FINANCIAL STATEMENTS
December 31, 1996 and 1995

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Operations

The Tech Museum of Innovation ("The Tech") was incorporated on January 11, 1983 as a nonprofit public benefit corporation. The specific purpose of The Tech is to administer the financing, construction and operation of a high technology science museum.

The Tech has entered into an agreement with the City of San Jose (the "City") for the lease of certain building space for a nominal fee. The building space will house The Tech's temporary science museum until the permanent facility is completed. The Tech will lease the permanent facility from the City under similar terms. The Tech's support and revenue comes primarily through contributions, federal awards, admissions and fees, and store revenue.

2. Categories of Net Assets

The net assets of The Tech are reported in the following categories:

- *Unrestricted net assets* generally have no donor-imposed restrictions. This category includes those revenues and expenses associated with program and supporting services.
- *Temporarily restricted net assets* include gifts for which donor-imposed restrictions have not been met and funds for which the ultimate purpose of the proceeds is not permanently restricted.
- *Permanently restricted net assets* includes a gift which requires, by donor-imposed restriction, that the corpus be invested in perpetuity and only the income be made available for The Tech's education program.

3. Contributed Support

The Tech recognizes all unconditional gifts and promises to give in the period notified. Contributed support is reported as unrestricted, temporarily restricted or permanently restricted depending on the existence of donor stipulations that limit the use of the support.

4. Accrual Basis

The financial statements of The Tech have been prepared on the accrual basis of accounting.

5. Functional Classification of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated, principally on a direct cost basis, among the classifications.

The Tech Museum of Innovation
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 1996 and 1995

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Investments

Investments consist primarily of U.S. Treasury Bills and corporate stocks. Investments are carried at fair value as determined by quoted market prices.

7. Concentration of Credit Risk

Financial instruments that potentially subject The Tech to significant concentrations of credit risk consist principally of bank deposits and investments. The Tech places its cash primarily in checking and market rate accounts and U.S. Treasury Bills.

8. Inventory

Inventory consists principally of merchandise (technology related items) sold in The Tech Store and is stated at the lower of cost or market, cost being determined on the first-in, first-out ("FIFO") method.

9. Property and Equipment

Property and equipment are stated at cost for purchased assets and at estimated fair value for contributed assets. Depreciation is computed by the straight-line method over the estimated useful lives of the assets which range 3 - 5 years. Leasehold improvements are amortized by the straight-line method over the shorter of the estimated useful lives of the assets or the term of the related lease.

10. Construction-In-Progress

Construction-in-progress is stated at cost and represents exhibit projects currently under construction.

11. Donated Property, Services and Use of Facility

The Tech records various types of in kind support including professional services and 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 are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in kind support are offset by like amounts included in expenses. Additionally, The Tech receives a significant amount of contributed time which does not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1996 and 1995

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Tax Exempt Status

The Tech has been granted exempt status by the Internal Revenue Service and Franchise Tax Board under Sections 501(c)(3) and 23701(d), respectively.

13. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Tech's allowance for estimated uncollectible contributed support receivables of \$457,772 and \$351,599, at December 31, 1996 and 1995, respectively are particularly significant estimates. The determination of the balance in this account is based on an analysis of the receivables and reflects an amount which, in management's judgment, is adequate to provide for potential losses after giving consideration to the character of the receivables, current economic conditions, past collection experience and such other factors that deserve current recognition in estimating losses.

14. Expiration of Donor-Imposed Restrictions

Donor-restricted contributions are booked in the temporarily or permanently restricted categories of net assets. The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Long-lived assets acquired with gifts of cash restricted for those acquisitions are reported as unrestricted based on The Tech's policy of lifting restrictions on contributions of cash used for the acquisition of long-lived assets when the long-lived assets begin construction or are acquired.

15. Federal Awards

Federal awards consist of funds received from the federal government for specific research projects. Substantially all of The Tech's federal award revenue is derived from cost reimbursement grants, which are billed to the grantor after costs have been incurred. Federal award revenue and unbilled federal awards are recognized to the extent the related costs are incurred.

Federal awards are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1996 and 1995

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

16. Reclassifications

Certain reclassifications have been made to the 1995 balances to conform to the 1996 presentation.

NOTE B - CHANGE IN ACCOUNTING PRINCIPLES AND PRESENTATION

Effective January 1, 1996, the Tech adopted the provisions of *1996 AICPA Audit and Accounting Guide for Not-For-Profit Organizations* (the "Guide"). The Guide requires the recognition of contribution revenue and a receivable for the present value of the promise for rent-free use of the facility, as described in Note F. The cumulative effect of this change in accounting was to increase net assets at January 1, 1996 by \$19,433,259. The adoption of the Guide decreased 1996 change in net assets by \$194,400, when compared to what would have been recorded under the prior methodology. The impact on 1995 change in net assets, had the Guide been implemented in that year, would have been a decrease of \$194,400.

Effective January 1, 1995, The Tech adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Made*. SFAS No. 116 requires that unconditional promises to give be recorded as receivables and revenue and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. The cumulative effect of this change in accounting principle was to increase net assets at January 1, 1995 by \$6,679,617. The adoption of SFAS No. 116 increased the 1995 change in net assets by \$487,774 when compared to what would have been recorded under the prior methodology.

Effective January 1, 1995, The Tech adopted the provisions of SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*. SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. Although the adoption of SFAS No. 117 does not affect the total net assets, the format of the financial statements has changed significantly.

Also, effective January 1, 1995, The Tech adopted the provisions of SFAS No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations*. SFAS No. 124 requires that investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value with gains and losses included in a statement of activities. Adoption of this statement did not have a significant impact on the financial results of The Tech.

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1996 and 1995

NOTE C - CASH, INVESTMENTS AND BENEFICIAL INTEREST IN TRUST

Information relative to cash, investments and the beneficial interest in trust, is summarized as follows:

	1996				Fair Value
	Interest Income	Net Realized (Loss)	Net Unrealized Gains	Net Realized/ Unrealized Gain (Loss)	
U.S. Government Securities	\$ 307,160	\$ -	\$ -	\$ -	\$ 8,081,353
Equity Securities	3,200	(7,450)	-	(7,450)	57,082
Beneficial Interest in Trust	-	-	14,205	14,205	120,593
	<u>310,330</u>	<u>(7,450)</u>	<u>14,205</u>	<u>6,755</u>	<u>8,259,028</u>
Cash	40,557	-	-	-	671,998
	<u>\$ 350,917</u>	<u>\$ (7,450)</u>	<u>\$ 14,205</u>	<u>\$ 6,755</u>	<u>\$ 8,931,026</u>
	1995				Fair Value
	Interest Income	Net Realized Gains	Net Unrealized Gains	Net Realized/ Unrealized Gain	
U.S. Government Securities	\$ 127,226	\$ -	\$ -	\$ -	\$ 4,810,003
Equity Securities	-	34,120	-	34,120	55,640
Beneficial Interest in Trust	1,265	-	15,612	15,612	106,900
	<u>128,491</u>	<u>34,120</u>	<u>15,612</u>	<u>49,732</u>	<u>4,972,543</u>
Cash	38,368	-	-	-	537,269
	<u>\$ 166,859</u>	<u>\$ 34,120</u>	<u>\$ 15,612</u>	<u>\$ 49,732</u>	<u>\$ 5,509,812</u>

The beneficial interest in trust represents amounts held by The Community Foundation of Santa Clara County on behalf of The Tech.

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1996 and 1995

NOTE D - CONTRIBUTED SUPPORT RECEIVABLE

Contributed support receivables are recorded after discounting the future cash flows to present value using a discount rate of 6%. Maturities of these receivables are as follows:

	<u>December 31, 1996</u>		
	<u>Contributed Support</u>	<u>Contributed Public Support</u>	<u>Contributed Use of Facility</u>
1997	\$ 5,644,605	\$ 1,000,000	\$ 194,400
1998	1,090,748	500,000	194,400
1999	386,975	-	1,404,000
2000	105,836	-	1,404,000
2001	20,000	-	1,404,000
2002 and thereafter	<u>-</u>	<u>-</u>	<u>73,008,000</u>
	7,248,164	1,500,000	77,608,800
Less discount for present value	(405,542)	(85,694)	(57,238,937)
Less allowance for estimated uncollectible contributed support	<u>(457,772)</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,384,850</u>	<u>\$ 1,414,306</u>	<u>\$ 20,369,863</u>
	<u>December 31, 1995</u>		
	<u>Contributed Support</u>	<u>Contributed Public Support</u>	
1996	\$ 3,042,664	\$ 1,933,399	
1997	1,370,695	1,000,000	
1998	486,069	-	
1999	<u>90,126</u>	<u>-</u>	
	4,989,554	2,933,399	
Less discount for present value	(353,493)	(219,433)	
Less allowance for estimated uncollectible contributed support	<u>(351,599)</u>	<u>-</u>	
	<u>\$ 4,284,462</u>	<u>\$ 2,713,966</u>	

The contributed support receivables are generally restricted to the design, construction and installation of exhibits and property and equipment for the permanent facility and related marketing, fund raising and other services. The receivable for the contributed use of the facility reflects the fair value of the use of the facility for 55 years using current rental rates (see Note F).

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1996 and 1995

NOTE E - CONDITIONAL CONTRIBUTED SUPPORT

The Tech has received a funding commitment from the City for \$1,300,000 of annual support which is conditioned on the opening of the new museum and the City's annual ability to fund the contribution. The contribution is for operation and maintenance costs and spans the life of the related lease discussed in Note F. This contribution has not been reflected in the accompanying financial statements as the donor-imposed conditions had not been met as of December 31, 1996.

The Tech was notified of conditional contributions totaling \$2,859,438 in 1994. Each contribution required the fulfillment of certain conditions including matching requirements and funding commitments from the City. During 1995, \$2,359,438 was recognized as contributed support when the donors' conditions were met. At December 31, 1995, \$500,000 remained conditional and was not reflected in the 1995 financial statements but was subsequently recognized as revenue in 1996. These contributions are restricted to costs of the new museum.

NOTE F - CITY OF SAN JOSE AND SAN JOSE REDEVELOPMENT AGENCY

In 1994, The Tech signed revised and updated agreements with both the City and the San Jose Redevelopment Agency ("SJRDA") with respect to the construction of a new museum facility. In accordance with the agreements, the SJRDA will construct the museum which the City will own and lease to The Tech for 55 years at a nominal fee. The Tech is responsible for raising the funds for developing and installing exhibits, leasehold improvements and equipment. Completion of this project is anticipated for 1998.

The agreement with the City provides for the conditional contribution discussed in Note E as well as a contribution to fund start-up costs for which The Tech has recorded a contributed public support receivable of \$1,414,306 and \$1,833,391 representing the present value of the amounts to be received at December 31, 1996 and 1995, respectively. The SJRDA agreement also provides for contributions to The Tech for certain exhibit development and project management costs. At December 31, 1995, The Tech had a contributed public support receivable of \$880,575 outstanding related to the present value of the unremitted portion.

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31,:

	<u>1996</u>	<u>1995</u>
Exhibits and furnishings	\$ 6,643,741	\$ 6,636,363
Furniture, fixtures and improvements	864,582	571,110
Leasehold improvements	<u>2,035,949</u>	<u>2,099,618</u>
	9,544,272	9,307,091
Less: accumulated depreciation	<u>9,080,216</u>	<u>8,881,787</u>
	<u>\$ 464,056</u>	<u>\$ 425,304</u>

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1996 and 1995

NOTE G - PROPERTY AND EQUIPMENT (continued)

Depreciation expense for the years ended December 31, 1996 and 1995 was \$198,430 and \$1,115,972, respectively.

NOTE H - RELATED PARTY TRANSACTIONS

For the years ended December 31, 1996 and 1995, The Tech received cash and stock contributions and equipment donations amounting to \$4,400,000 and \$4,410,000, respectively, from members of the Board of Directors of The Tech or companies with which the Board of Directors are affiliated. At December 31, 1996 and 1995, the present value of contributed support receivables from these related parties approximated \$3,200,000 and \$3,000,000, respectively.

NOTE I - COMMITMENTS

The Tech is obligated under noncancelable operating leases for office and storage space which expire on June 30, 2001. Future minimum noncancelable lease payments under The Tech's leases are as follows:

Year ending December 31.

1997	\$ 125,652
1998	135,228
1999	172,264
2000	104,650
2001	104,650
2002 and thereafter	<u>732,550</u>
	<u>\$ 1,374,994</u>

In 1996 and 1995, total rent expense was \$305,206 and \$224,226, respectively, including \$194,400 representing the contributed use of the facility for both 1996 and 1995.

Included in the commitments above is the obligation for lease payments for the IMAX theater which will be a feature of the new museum upon completion. Lease payments are based on 7% of the theater admissions or a minimum of \$350 per seat, per year, for a minimum of \$104,650 each year over the term of the 10 year lease.

NOTE J - MAJOR CONTRIBUTIONS

In 1996, 4 donors accounted for 48% of contributed support. In 1995, two donors accounted for 32% of contributed support.

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1996 and 1995

NOTE K - EMPLOYEE BENEFIT PLAN

The Tech provides a defined contribution plan for all full-time employees. The plan provides for employee contributions although the employer does not contribute at this time.

NOTE L - NET ASSETS

Temporarily restricted net assets are restricted by donors for the purposes described below. Permanently restricted net assets consist of investments held in perpetuity, the income of which is expendable for the purposes described below at December 31,:

	<u>1996</u>		<u>1995</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Education	\$ 81,000	\$ 100,000	\$ -	\$ 100,000
New museum	16,336,768	-	12,536,500	-
Use of facilities	<u>20,369,863</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 36,787,631</u>	<u>\$ 100,000</u>	<u>\$ 12,536,500</u>	<u>\$ 100,000</u>

NOTE M - NET ASSETS RELEASED FROM RESTRICTION

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 restriction as follows for the years ended December 31,:

	<u>1996</u>	<u>1995</u>
Purposes restrictions accomplished:		
Education	\$ 20,593	\$ -
New museum	4,035,694	2,786,284
Time restriction met:		
Use of facilities	<u>194,400</u>	<u>-</u>
	<u>\$ 4,250,687</u>	<u>\$ 2,786,284</u>

Report of Independent Certified Public Accountants
on Schedule of Federal Awards

Board of Directors
The Tech Museum of Innovation

We have audited the financial statements of The Tech Museum of Innovation as of and for the year ended December 31, 1996, and have issued our report thereon dated March 28, 1997. These financial statements are the responsibility of The Tech Museum of Innovation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of The Tech Museum of Innovation taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Arcut Thornton LLP

San Jose, California
March 28, 1997

The Tech Museum of Innovation

SCHEDULE OF FEDERAL AWARDS

December 31, 1996

Federal Grantor Program Title	Federal CFDA Number	Grantor's Number	Program Award Amount	Federal Award Revenue	Federally Funded Expenditures
National Science Foundation (one major program) "Exploration: An Exhibit About the Discovery of Our World and the World Beyond"	47.076	ESI-9627196	\$ 644,738	\$ 35,548	\$ 35,548
"Innovation: An Exhibit to Foster an Understanding of and Invite Participation in the Process of Innovation"	47.076	ESI-9552566	306,676	202,438	202,438
United States Department of Commerce "A Cooperative Agreement: An Exhibit to Foster an Understanding of Technological Innovation, as Embodied by the National Medal of Technology Presidential Awards"	N/A	9846165	50,000	-	-
			<u>\$1,001,414</u>	<u>\$237,986</u>	<u>\$237,986</u>

**Report of Independent Certified Public Accountants
on the Internal Control Structure Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

Board of Directors
The Tech Museum of Innovation

We have audited the financial statements of The Tech Museum of Innovation, as of and for the year ended December 31, 1996, and have issued our report thereon dated March 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of The Tech Museum of Innovation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of The Tech Museum of Innovation for the year ended December 31, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weakness as defined above.

We noted other matters involving the internal control structure and its operation that we have communicated to the management of The Tech Museum of Innovation in a separate letter dated March 28, 1997.

This report is intended for the information of the Board of Directors, management, and the National Science Foundation. However, this report is a matter of public record and its distribution is not limited.

Aunt Thornton LLP

San Jose, California
March 28, 1997

**Report of Independent Certified Public Accountants on
Compliance with Laws, Regulations, Contracts and Grants
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Directors
The Tech Museum of Innovation

We have audited the financial statements of The Tech Museum of Innovation, as of and for the year ended December 31, 1996, and have issued our report thereon dated March 28, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to The Tech Museum of Innovation is the responsibility of The Tech Museum of Innovation's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of The Tech Museum of Innovation's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management, and the National Science Foundation. However, this report is a matter of public record and its distribution is not limited.



San Jose, California
March 28, 1997

**Report of Independent Certified Public Accountants on
Internal Control Structure Used in Administering Federal Awards**

Board of Directors
The Tech Museum of Innovation

We have audited the financial statements of The Tech Museum of Innovation, as of and for the year ended December 31, 1996, and have issued our report thereon dated March 28, 1997. We have also audited The Tech Museum of Innovation's compliance with requirements applicable to major federal programs and have issued our report thereon dated March 28, 1997.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget ("OMB") Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether The Tech Museum of Innovation complied with laws and regulations, noncompliance with which would be material to a major federal program.

In planning and performing our audits for the year ended December 31, 1996, we considered The Tech Museum of Innovation's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on The Tech Museum of Innovation's financial statements and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-133. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal programs. We have addressed policies and procedures relevant to our audit of the financial statements in a separate report dated March 28, 1997.

The management of The Tech Museum of Innovation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal awards programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal programs in the following categories:

Activity Cycles and Accounting Applications

- Purchases/disbursements/accounts payable
- Payroll/personnel
- General ledger
- Billings/cash receipts/accounts receivable

General requirements

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs and cost principles
- Drug-free workplace
- Administrative requirements

Specific Requirements

- Types of services allowed or not allowed
- Reporting
- Special tests and provisions

Claims for Advances and Reimbursements

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

During the year ended December 31, 1996, The Tech Museum of Innovation expended 100 percent of its total federal awards under one major program.

We performed tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements that are applicable to The Tech Museum of Innovation's major program, which is identified in the accompanying Schedule of Federal Awards. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal awards would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to noncompliance with laws and regulations that would be material to a federal awards program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as described above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of The Tech Museum of Innovation in a separate letter dated March 28, 1997.

This report is intended for the information of the Board of Directors, management, and the National Science Foundation. However, this report is a matter of public record and its distribution is not limited.

Grant Thornton LLP

San Jose, California
March 28, 1997

**Report of Independent Certified Public Accountants on
Compliance with Specific Requirements Applicable to Major Programs**

Board of Directors
The Tech Museum of Innovation

We have audited the financial statements of The Tech Museum of Innovation, as of and for the year ended December 31, 1996, and have issued our report thereon dated March 28, 1997.

We have also audited The Tech Museum of Innovation's compliance with the requirements governing types of services allowed or not allowed; reporting; special tests and provisions; and claims for advances and reimbursements that are applicable to its major federal programs for the year ended December 31, 1996. The management of The Tech Museum of Innovation is responsible for the Tech's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget ("OMB") Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about The Tech Museum of Innovation's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, The Tech Museum of Innovation complied, in all material respects, with the requirements governing types of services allowed or not allowed; reporting; special tests and provisions; and claims for advances and reimbursements that are applicable to its major federal program for the year ended December 31, 1996.

This report is intended for the information of the Board of Directors, management, and the National Science Foundation. However, this report is a matter of public record and its distribution is not limited.

Hunt Thornton LLP

San Jose, California
March 28, 1997

**Report of Independent Certified Public Accountants on
Compliance with the General Requirements Applicable to Federal Programs**

Board of Directors
The Tech Museum of Innovation

We have audited the financial statements of The Tech Museum of Innovation, as of and for the year ended December 31, 1996, and have issued our report thereon dated March 28, 1997.

We have applied procedures to test The Tech Museum of Innovation's compliance with the following requirements applicable to its federal program, which is identified in the accompanying Schedule of Federal Awards, for the year ended December 31, 1996.

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs and cost principles
- Drug-free workplace
- Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Audits of Institutions of Higher Learning and Other Nonprofit Institutions*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on The Tech Museum of Innovation's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of our procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that The Tech Museum of Innovation has not complied, in all material respects, with those requirements.

This report is intended for the information of the Board of Directors, management, and the National Science Foundation. However, this report is a matter of public record and its distribution is not limited.



San Jose, California
March 28, 1997

The Tech Museum of Innovation
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 1996

NONE

The Tech Museum of Innovation

PRIOR YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 1996

Finding

Because The Tech receives several federally-funded grants, the Organization must comply with requirements imposed by the granting agencies. One of these requirements is that each organization receiving federal funds maintain a drug-free workplace policy which should include certain specific provisions. The Tech does maintain such a policy but one particular required provision has not been included in the policy.

Questioned Costs

None.

Recommendation

We recommend The Tech update its policy to include a provision that employees will notify the employer, in writing, of any criminal drug statute conviction for a violation occurring in the workplace, no later than 5 calendar days after such conviction.

Management's Response

The Tech will update the drug free workplace policy to include this provision.

Status

The Tech is in compliance.