



**The Tech Museum of Innovation**

**Financial Statements**

**June 30, 2017 and 2016**

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, 2017 and 2016, 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, 2017 and 2016, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Frank, Rimmerman & Co. LLP". The signature is written in a cursive, flowing style.

San Jose, California  
October 19, 2017

## The Tech Museum of Innovation Statements of Financial Position

	June 30, 2017				June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>ASSETS</b>								
Cash and Cash Equivalents	\$ 2,195,896	\$ 2,847,538	\$ -	\$ 5,043,434	\$ 1,913,681	\$ 15,152	\$ -	\$ 1,928,833
Grants and Other Receivables	243,704	560,623	-	804,327	153,543	450,023	-	603,566
Pledges Receivable, net	-	5,277,752	7,839	5,285,591	32,960	8,790,517	11,000	8,834,477
Prepaid Expenses and Other Assets	475,894	-	-	475,894	306,672	-	-	306,672
Investments	2,048,960	8,551,397	12,707,867	23,308,224	2,217,958	7,035,400	12,704,706	21,958,064
Property, Exhibits and Equipment, net	11,619,193	-	-	11,619,193	13,053,086	-	-	13,053,086
Beneficial Interest in Use of Facility, net	-	20,609,153	-	20,609,153	-	20,767,125	-	20,767,125
<b>Total assets</b>	<b>\$ 16,583,647</b>	<b>\$ 37,846,463</b>	<b>\$ 12,715,706</b>	<b>\$ 67,145,816</b>	<b>\$ 17,677,900</b>	<b>\$ 37,058,217</b>	<b>\$ 12,715,706</b>	<b>\$ 67,451,823</b>
<b>LIABILITIES AND NET ASSETS</b>								
<b>Liabilities</b>								
Accounts payable	\$ 697,856	\$ -	\$ -	\$ 697,856	\$ 518,439	\$ -	\$ -	\$ 518,439
Accrued expenses	500,791	-	-	500,791	724,645	-	-	724,645
Deferred revenue	521,638	-	-	521,638	615,937	-	-	615,937
Capital lease obligation	16,133	-	-	16,133	23,232	-	-	23,232
<b>Total liabilities</b>	<b>1,736,418</b>	<b>-</b>	<b>-</b>	<b>1,736,418</b>	<b>1,882,253</b>	<b>-</b>	<b>-</b>	<b>1,882,253</b>
<b>Commitments (Notes 4 and 9)</b>								
<b>Net Assets</b>								
Unrestricted	14,847,229	-	-	14,847,229	15,795,647	-	-	15,795,647
Temporarily restricted	-	37,846,463	-	37,846,463	-	37,058,217	-	37,058,217
Permanently restricted	-	-	12,715,706	12,715,706	-	-	12,715,706	12,715,706
<b>Total net assets</b>	<b>14,847,229</b>	<b>37,846,463</b>	<b>12,715,706</b>	<b>65,409,398</b>	<b>15,795,647</b>	<b>37,058,217</b>	<b>12,715,706</b>	<b>65,569,570</b>
<b>Total liabilities and net assets</b>	<b>\$ 16,583,647</b>	<b>\$ 37,846,463</b>	<b>\$ 12,715,706</b>	<b>\$ 67,145,816</b>	<b>\$ 17,677,900</b>	<b>\$ 37,058,217</b>	<b>\$ 12,715,706</b>	<b>\$ 67,451,823</b>

See Notes to Financial Statements

**The Tech Museum of Innovation**  
**Statements of Activities**  
**Years Ended June 30, 2017 and 2016**

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support								
Public support	\$ 1,148,519	\$ -	\$ -	\$ 1,148,519	\$ 1,049,800	\$ -	\$ -	\$ 1,049,800
Contributed support	794,413	9,712,569	-	10,506,982	131,388	12,770,395	-	12,901,783
In-kind contributions	1,002,646	-	-	1,002,646	933,719	-	-	933,719
Donated use of facilities	1,246,028	-	-	1,246,028	1,254,969	-	-	1,254,969
Admissions and fees	3,394,257	-	-	3,394,257	3,373,015	-	-	3,373,015
Investment income (loss), net	81,406	1,812,737	-	1,894,143	48,148	(162,500)	-	(114,352)
Rental and other income	2,005,914	-	-	2,005,914	2,150,148	-	-	2,150,148
Net assets released from restrictions	10,737,060	(10,737,060)	-	-	13,152,349	(13,152,349)	-	-
Total revenues and other support	20,410,243	788,246	-	21,198,489	22,093,536	(544,454)	-	21,549,082
Expenses								
Program services								
Exhibits, programs and experiences	11,676,884	-	-	11,676,884	10,929,010	-	-	10,929,010
Education	2,023,576	-	-	2,023,576	2,108,878	-	-	2,108,878
Visitor services	2,463,442	-	-	2,463,442	2,384,068	-	-	2,384,068
Support services								
Fundraising and membership	1,980,683	-	-	1,980,683	1,943,160	-	-	1,943,160
General and administrative								
Marketing	1,332,870	-	-	1,332,870	1,379,128	-	-	1,379,128
Administration	1,881,206	-	-	1,881,206	1,564,955	-	-	1,564,955
Total expenses	21,358,661	-	-	21,358,661	20,309,199	-	-	20,309,199
Change in Net Assets	(948,418)	788,246	-	(160,172)	1,784,337	(544,454)	-	1,239,883
Net Assets, beginning of year	15,795,647	37,058,217	12,715,706	65,569,570	14,011,310	37,602,671	12,715,706	64,329,687
Net Assets, end 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

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	3,039,926	57,233	33,285	3,130,444	10,946	13,135	15,324	39,405	3,169,849
Donated Rent	1,224,049	91,359	39,172	1,354,580	37,065	12,355	-	49,420	1,404,000
Tech Awards	1,143,758	-	-	1,143,758	419,162	-	-	419,162	1,562,920
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
<b>Total expenses</b>	<b>\$ 11,676,884</b>	<b>\$ 2,023,576</b>	<b>\$ 2,463,442</b>	<b>\$ 16,163,902</b>	<b>\$ 1,980,683</b>	<b>\$ 1,332,870</b>	<b>\$ 1,881,206</b>	<b>\$ 5,194,759</b>	<b>\$ 21,358,661</b>
<b>Percent of Total Expenses</b>	<b>55%</b>	<b>9%</b>	<b>12%</b>	<b>76%</b>	<b>9%</b>	<b>6%</b>	<b>9%</b>	<b>24%</b>	<b>100%</b>

See Notes to Financial Statements

**The Tech Museum of Innovation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2016**

	Programs				Support Services				
	Exhibits, Programs and Experiences	Education	Visitor Services	Total Program Services	Fundraising and Membership	General and Administrative		Total Support Services	Total
						Marketing	Administration		
Salaries	\$ 2,890,801	\$ 1,075,042	\$ 1,395,219	\$ 5,361,062	\$ 900,597	\$ 626,798	\$ 877,264	\$ 2,404,659	\$ 7,765,721
Payroll Taxes	201,561	74,873	97,322	373,756	62,843	43,699	61,010	167,552	541,308
Benefits	231,644	85,739	112,904	430,287	72,638	50,000	66,273	188,911	619,198
Professional Fees	33,665	91,209	-	124,874	-	9,357	204,169	213,526	338,400
Materials and Supplies	485,560	95,311	64,288	645,159	40,150	7,720	52,796	100,666	745,825
Advertising and Public Relations	22,353	39,198	14,052	75,603	22,025	310,251	89	332,365	407,968
Fees and Services	133,176	20,462	17,907	171,545	7,178	90,168	34,192	131,538	303,083
Royalties	487,953	-	-	487,953	13,789	-	-	13,789	501,742
Bankcard Fees	116,665	-	-	116,665	-	-	-	-	116,665
In-kind Contributions	83,950	34,605	-	118,555	35,130	-	126,573	161,703	280,258
Travel and Transportation	66,153	6,543	12,675	85,371	24,885	52,895	8,776	86,556	171,927
Occupancy	842,601	119,633	527,482	1,489,716	89,525	100,939	74,699	265,163	1,754,879
Building and Equipment Rental	134,743	32,655	702	168,100	847	491	1,985	3,323	171,423
Depreciation and Amortization	2,438,205	55,958	39,060	2,533,223	30,157	26,387	33,926	90,470	2,623,693
Donated Rent	1,224,049	91,359	39,172	1,354,580	37,065	12,355	-	49,420	1,404,000
Tech Awards	1,443,277	-	-	1,443,277	522,688	-	-	522,688	1,965,965
Tech Challenge and Related Expenses	16,350	233,476	21,662	271,488	13,847	9	2,645	16,501	287,989
Insurance	33,256	7,151	33,211	73,618	5,819	4,627	4,534	14,980	88,598
Other	43,048	45,664	8,412	97,124	63,977	43,432	16,024	123,433	220,557
<b>Total expenses</b>	<b>\$ 10,929,010</b>	<b>\$ 2,108,878</b>	<b>\$ 2,384,068</b>	<b>\$ 15,421,956</b>	<b>\$ 1,943,160</b>	<b>\$ 1,379,128</b>	<b>\$ 1,564,955</b>	<b>\$ 4,887,243</b>	<b>\$ 20,309,199</b>
<b>Percent of Total Expenses</b>	<b>54%</b>	<b>10%</b>	<b>12%</b>	<b>76%</b>	<b>9%</b>	<b>7%</b>	<b>8%</b>	<b>24%</b>	<b>100%</b>

See Notes to Financial Statements

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

	Years Ended June 30,	
	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ (160,172)	\$ 1,239,883
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,176,416	2,638,773
In-kind contribution of marketable securities	(3,404,883)	(682,296)
In-kind donation of property, exhibits and equipment	(300,320)	(329,772)
In-kind rent expense related to contributed use of facility	157,972	149,031
Net realized and unrealized (gain) loss on investments	(1,665,317)	355,015
Change in discount on pledges receivable	(130,072)	131,341
Retirement of exhibits	28,958	9,832
Changes in operating assets and liabilities:		
Grants and other receivables	(200,761)	(250,018)
Pledges receivable	3,678,958	(2,349,990)
Prepaid expenses and other assets	(169,222)	(563)
Accounts payable and accrued expenses	(333,024)	(388,076)
Deferred revenue	(94,299)	115,336
Net cash provided by operating activities	<u>584,234</u>	<u>638,496</u>
Cash Flows from Investing Activities:		
Net proceeds from sale and distribution of investments	4,170,087	2,541,248
Purchase of investments	(450,047)	(400,069)
Purchase of property, exhibits and equipment	(1,182,574)	(3,353,867)
Net cash provided by (used in) investing activities	<u>2,537,466</u>	<u>(1,212,688)</u>
Cash Flows from Financing Activities:		
Payments on capital lease obligation	(7,099)	(6,890)
Net cash used in financing activities	<u>(7,099)</u>	<u>(6,890)</u>
Net increase (decrease) in cash and cash equivalents	3,114,601	(581,082)
Cash and Cash Equivalents, beginning of year	<u>1,928,833</u>	<u>2,509,915</u>
Cash and Cash Equivalents, end of year	<u>\$ 5,043,434</u>	<u>\$ 1,928,833</u>
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
Amounts payable for construction in progress	<u>\$ 288,587</u>	<u>\$ 26,564</u>

See Notes to Financial Statements



## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 1. Nature of Activities

The mission of The Tech Museum of Innovation (the 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 30 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 them with the 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

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#### 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 and expenses in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### *Revenue Recognition:*

The Museum recognizes grants, contributions and unconditional promises to give (pledges) as revenue at their fair value in the period the donor makes the contribution or pledge that is, in substance, unconditional. Conditional promises to give and support are not recognized until the 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

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

In fiscal 2017, the Museum recognized in-kind contribution revenue of \$1,003,000 (in-kind contribution revenue of \$934,000 in fiscal 2016). Expenses related to these in-kind donations are recognized in the Statements of Functional Expenses as in-kind contributions of \$326,000 (in-kind contributions of \$280,000 in fiscal 2016) and Tech Awards expense of \$234,000 (Tech Awards expense of \$324,000 in fiscal 2016). The remaining \$443,000 represents donated property, exhibits and equipment and other assets (\$330,000 represents donated property, exhibits and equipment in fiscal 2016).

##### *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.

##### *Investments:*

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

## The Tech Museum of Innovation

### Notes to Financial Statements

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

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

Investments in private equity, 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 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 investing in those investments.

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 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 financial instrument.
- 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, 2017 and 2016, the Museum applied a discount rate of 2.25%.

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07 (ASU 2015-07), *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share (NAV) as a practical expedient. ASU 2015-07 is effective for the Museum on July 1, 2017. Early adoption is permitted. The Museum has elected to early adopt ASU 2015-07 and applied the standard to both periods presented. Investments with a value of \$11,496,000 at June 30, 2017 (\$10,519,000 at June 30, 2016) that were valued using NAV have been removed from the fair value hierarchy.

## The Tech Museum of Innovation

### Notes to Financial Statements

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

##### *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 all of its outstanding receivables and provides allowances for potential credit losses as needed. Credit losses have historically been within management's expectation.

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

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

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

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

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

## The Tech Museum of Innovation

### Notes to Financial Statements

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

##### *Income Taxes:*

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

Although an organization is recognized as tax exempt, it is still liable for tax on its unrelated business taxable income (UBTI). The Museum does not believe it has UBTI that will result in an income tax liability at June 30, 2017. The Museum's federal exempt organization business income tax returns are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

The Museum applies the provisions set forth in FASB Accounting Standards Codification Topic 740 to account for uncertainty in income taxes. The Museum assessed all income tax positions taken where the statute of limitation remained open. The Museum believes that its tax filing positions will be sustained upon tax examination; therefore, no liability for unrecognized income tax benefits has been recorded through June 30, 2017. The Museum does not anticipate any significant increases or decreases to unrecognized income tax benefits during the next 12 months.

##### *Functional Expenses:*

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

Certain costs incurred for the Tech Awards Gala are considered to be joint costs. These costs have been allocated to the Tech Awards program (\$294,000 in 2017 and \$272,000 in 2016), which is included in exhibits, programs and experiences, and to fundraising and membership (\$98,000 in 2017 and \$91,000 in 2016) in the Statements of Functional Expenses.

##### *Advertising:*

Costs associated with advertising are expensed when incurred. Advertising expenses, including in-kind services, were \$628,000 in 2017 (\$628,000 in 2016).

## The Tech Museum of Innovation

### Notes to Financial Statements

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

##### *Reclassifications:*

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

##### *Recent Accounting Pronouncements Not Yet Effective:*

##### *Presentation of Financial Statements:*

In August 2016, the FASB issued 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 restriction” and “without donor restriction”); 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.

##### *Leases:*

In February 2016, the FASB issued ASU 2016-02, *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. ASU 2016-02 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 ASU 2016-02.



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

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3. Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	<u>2017</u>	<u>2016</u>
The Tech 3.0 Campaign	\$ 4,142,000	\$ 7,264,000
Other	<u>1,144,000</u>	<u>1,570,000</u>
Net pledges receivable	<u>\$ 5,286,000</u>	<u>\$ 8,834,000</u>
Receivable in less than one year	\$ 2,111,000	\$ 3,681,000
Receivable in one to five years	2,980,000	4,888,000
Greater than five years	<u>400,000</u>	<u>600,000</u>
Subtotal	5,491,000	9,169,000
Less: allowance for doubtful accounts	(25,000)	(25,000)
Less: unamortized discount to present value	<u>(180,000)</u>	<u>(310,000)</u>
Net pledges receivable	<u>\$ 5,286,000</u>	<u>\$ 8,834,000</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, 2017, the Museum has raised \$40,343,000 from the Tech 3.0 Campaign, of which \$36,201,000 had been received.

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

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4. Investments

Investments consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Unrestricted and temporarily restricted investments:		
Certificates of deposit	\$ 7,927,287	\$ 8,226,132
Equity funds	2,067,002	838,301
Money market funds	<u>606,068</u>	<u>188,925</u>
Total	<u>\$ 10,600,357</u>	<u>\$ 9,253,358</u>
Permanently restricted investments:		
Equity funds	\$ 7,618,741	\$ 7,779,799
Fixed income funds	3,621,451	3,745,251
Venture capital funds	<u>1,467,675</u>	<u>1,179,656</u>
Total	<u>\$ 12,707,867</u>	<u>\$ 12,704,706</u>

Investments are valued as follows at June 30:

	<u>2017</u>	<u>2016</u>
NAV	\$ 11,496,477	\$ 10,519,490
Fair value	<u>11,811,747</u>	<u>11,438,574</u>
Total	<u>\$ 23,308,224</u>	<u>\$ 21,958,064</u>

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

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4. Investments (continued)

*Valued at Fair Value:*

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 funds	-	1,810,717	-	1,810,717
Venture capital funds	<u>-</u>	<u>-</u>	<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 following table presents the investments carried at fair value as of June 30, 2016 under the three-level hierarchy:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Certificates of deposit	\$ 8,226,132	\$ -	\$ -	\$ 8,226,132
Money market funds	188,925	-	-	188,925
Fixed income funds	-	1,843,861	-	1,843,861
Venture capital funds	<u>-</u>	<u>-</u>	<u>1,179,656</u>	<u>1,179,656</u>
Total	<u>\$ 8,415,057</u>	<u>\$ 1,843,861</u>	<u>\$ 1,179,656</u>	<u>\$ 11,438,574</u>

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 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, 2017 and 2016.

	<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 may also be 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 the reporting date. Estimated fair values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

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

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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 the years ended June 30, 2017 and 2016 (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 the year ended June 30, 2017:

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

Investment activity in in the Museum’s Level III investments consists of the following for the year ended June 30, 2016:

	July 1, 2015	Contributions	Realized and Unrealized Loss	Investment Loss	Distributions	June 30, 2016
Venture capital funds	\$ 1,239,690	\$ 142,500	\$ (12,023)	\$ (9,709)	\$ (180,802)	\$ 1,179,656

*Valued Using NAV:*

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

	Fair Value at June 30, 2017	Fair Value at June 30, 2016	Redemption Frequency	Redemption Notice
Domestic equity funds	\$ 9,685,743	\$ 8,206,886	Daily - Annually	1 - 90 days
Fixed income funds	1,810,734	1,901,390	Daily - Monthly	1 – 5 days
International equity funds	-	411,214	Weekly - Quarterly	5 – 90 days
Total	\$ 11,496,477	\$ 10,519,490		

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

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

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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, 2017, the Museum had future capital call commitments of \$1,014,000, which are payable when required by the fund manager.

5. Investment Income

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

Net investment income (loss) is comprised of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 273,204	\$ 284,153
Net realized and unrealized gain (loss)	1,665,317	(355,015)
Investment management expenses	<u>(44,378)</u>	<u>(43,490)</u>
	<u>\$ 1,894,143</u>	<u>\$ (114,352)</u>

6. Property, Exhibits and Equipment

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

	<u>2017</u>	<u>2016</u>
Exhibits	\$ 14,206,741	\$ 17,011,028
Building and leasehold improvements	11,287,282	11,266,230
Equipment	6,314,809	6,163,004
Construction in progress	779,538	115,565
Computer software	<u>11,000</u>	<u>-</u>
	32,599,370	34,555,827
Accumulated depreciation and amortization	<u>(20,980,177)</u>	<u>(21,502,741)</u>
Property, exhibits and equipment, net	<u>\$ 11,619,193</u>	<u>\$ 13,053,086</u>

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

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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.

In fiscal 2017, the Museum recognized a retirement loss of \$29,000 on exhibits under construction that were capitalized in prior years that would not be placed into service (\$10,000 in fiscal 2016).

7. Beneficial Interest in Use of Facility

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

	<u>2017</u>	<u>2016</u>
Total benefit in interest in use of facility	\$ 51,246,000	\$ 52,650,000
Less discount at 6% to net present value	<u>(30,636,847)</u>	<u>(31,882,875)</u>
Net beneficial interest in use of facility	<u>\$ 20,609,153</u>	<u>\$ 20,767,125</u>

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

	<u>2017</u>	<u>2016</u>
Rent expense	\$ 1,404,000	\$ 1,404,000
Amortization of discount	<u>(1,246,028)</u>	<u>(1,254,969)</u>
Net decrease in temporarily restricted net assets	<u>\$ 157,972</u>	<u>\$ 149,031</u>

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 8. Line of Credit

The Museum has a \$2,000,000 unsecured line of credit with a bank, which the bank has extended annually. The line of credit expires in January 2019. Borrowings under the agreement bear interest at the bank's prime rate plus 1% per annum (5.25% at June 30, 2017) and are secured by all deposits and accounts maintained with the bank. The Museum did not borrow any amounts against the line in 2017 or 2016.

#### 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 \$54,000 in fiscal 2017 (\$50,000 in fiscal 2016). Future minimum lease payments under the non-cancelable lease agreements are as follows:

##### Years ending June 30:

2018	\$ 56,000
2019	<u>28,000</u>
	<u>\$ 84,000</u>

The Museum leases an IMAX projection and sound system under a non-cancelable lease through October 2017, at which time becomes month-to-month. The total amount of rent to be paid for the lease is \$84,000. The lease also includes a maintenance agreement, which requires the Museum to incur a minimum amount of maintenance expense annually. The Museum is also subject to additional rent based on 4% of annual gross revenues over \$3,000,000. The Museum did not incur any additional rent in fiscal 2017 or fiscal 2016. Rent expense under the lease is recognized straight line over the lease term and was \$84,000 in fiscal 2017 (\$82,000 in fiscal 2016). In October 2014, the agreement was amended to include annual maintenance fees of \$85,000 to be paid on a monthly basis. Total maintenance expense under the lease was \$93,000 in fiscal 2017 (\$85,000 in fiscal 2016).

As of June 30, 2017, the balance of the prepaid rent was \$29,000 (\$27,000 as of June 30, 2016).



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

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9. Lease Arrangements (continued)

*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 on the equipment financed was \$16,000 at June 30, 2017.

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

Years ending June 30,		
2018		\$ 8,000
2019		<u>8,000</u>
Capital lease obligation		<u>\$ 16,000</u>

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>2017</u>	<u>2016</u>
Beneficial interest in use of facility (time restriction)	\$ 20,609,153	\$ 20,767,125
Operations (time and purpose restrictions)	8,489,225	5,183,816
Receivables (time and purpose restrictions)	5,846,214	9,251,540
Undesignated endowment income (time restriction)	<u>2,901,871</u>	<u>1,855,736</u>
	<u>\$ 37,846,463</u>	<u>\$ 37,058,217</u>

Permanently restricted net assets of \$12,715,706 at June 30, 2017 and 2016 consist of investments held in perpetuity and a pledge receivable.

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

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11. Net Assets Released from Restrictions

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

	<u>2017</u>	<u>2016</u>
Operations (time and purpose restrictions)	\$ 9,822,110	\$ 11,962,716
Designated endowment income (time restriction)	756,978	744,000
Beneficial interest in use of facility (time restriction)	157,972	149,031
Special projects (time and purpose restrictions)	<u>-</u>	<u>296,602</u>
	<u>\$ 10,737,060</u>	<u>\$ 13,152,349</u>

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.

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

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12. Endowment (continued)

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, 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>

Endowment assets consist of the following at June 30, 2016:

	<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	-	1,855,736	-	1,855,736
	<u>\$ -</u>	<u>\$ 1,855,736</u>	<u>\$ 12,715,706</u>	<u>\$ 14,751,442</u>

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

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12. Endowment (continued)

Changes in endowment assets for the year ended June 30, 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	-	1,812,737	-	1,812,737
Appropriated for expenditure	<u>-</u>	<u>(766,602)</u>	<u>-</u>	<u>(766,602)</u>
Endowment Assets, end of year	<u>\$ -</u>	<u>\$ 2,901,871</u>	<u>\$ 12,715,706</u>	<u>\$ 15,617,577</u>

Changes in endowment assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Assets, beginning of year	\$ -	\$ 2,763,473	\$ 12,715,706	\$ 15,479,179
Net depreciation	-	(163,737)	-	(163,737)
Appropriated for expenditure	<u>-</u>	<u>(744,000)</u>	<u>-</u>	<u>(744,000)</u>
Endowment Assets, end of year	<u>\$ -</u>	<u>\$ 1,855,736</u>	<u>\$ 12,715,706</u>	<u>\$ 14,571,442</u>

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

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 12. Endowment (continued)

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 \$2,453,000 in fiscal 2017 (\$4,202,000 in fiscal 2016). Amounts due from the Board and affiliates are \$992,000 at June 30, 2017 (\$3,049,000 at June 30, 2016).

#### 14. Subsequent Events

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