



The Tech Museum of Innovation

Financial Statements

June 30, 2016 and 2015

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

Report on the Financial Statements

We have audited the financial statements of The Tech Museum of Innovation, which comprise the statements of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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.

Emphasis of Matter - Correction of Error

As discussed in Note 3 to the financial statements, certain errors resulting in an understatement of amounts previously reported for in-kind contributions, property, exhibits, and equipment and program expense for the year ended June 30, 2015, were discovered by management in 2016. Accordingly, amounts reported for these accounts have been restated in the financial statements as of and for the year ended June 30, 2015 presented herein. Our opinion is not modified with respect to that matter.

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

San Jose, California
October 26, 2016

The Tech Museum of Innovation Statements of Financial Position

	June 30, 2016				June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted (Restated)	Temporarily Restricted	Permanently Restricted	Total (Restated)
ASSETS								
Cash and Cash Equivalents	\$ 1,913,681	\$ 15,152	\$ -	\$ 1,928,833	\$ 1,990,920	\$ 518,995	\$ -	\$ 2,509,915
Grants and Other Receivables	153,543	450,023	-	603,566	353,548	-	-	353,548
Pledges Receivable, net of discount and allowance for doubtful accounts of \$25,000	32,960	8,790,517	11,000	8,834,477	-	6,604,828	11,000	6,615,828
Prepaid Expenses and Other Assets	306,672	-	-	306,672	306,109	-	-	306,109
Investments	2,217,958	7,035,400	12,704,706	21,958,064	1,504,564	9,562,692	12,704,706	23,771,962
Property, Exhibits and Equipment, net	13,053,086	-	-	13,053,086	11,991,488	-	-	11,991,488
Beneficial Interest in Use of Facility, net	-	20,767,125	-	20,767,125	-	20,916,156	-	20,916,156
Total assets	\$ 17,677,900	\$ 37,058,217	\$ 12,715,706	\$ 67,451,823	\$ 16,146,629	\$ 37,602,671	\$ 12,715,706	\$ 66,465,006
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable	\$ 518,439	\$ -	\$ -	\$ 518,439	\$ 920,943	\$ -	\$ -	\$ 920,943
Accrued expenses	724,645	-	-	724,645	683,653	-	-	683,653
Deferred revenue	615,937	-	-	615,937	500,601	-	-	500,601
Capital lease obligations	23,232	-	-	23,232	30,122	-	-	30,122
Total liabilities	1,882,253	-	-	1,882,253	2,135,319	-	-	2,135,319
Commitments (Notes 5, 6, 9 and 10)								
Net Assets								
Unrestricted	15,795,647	-	-	15,795,647	14,011,310	-	-	14,011,310
Temporarily restricted	-	37,058,217	-	37,058,217	-	37,602,671	-	37,602,671
Permanently restricted	-	-	12,715,706	12,715,706	-	-	12,715,706	12,715,706
Total net assets	15,795,647	37,058,217	12,715,706	65,569,570	14,011,310	37,602,671	12,715,706	64,329,687
Total liabilities and net assets	\$ 17,677,900	\$ 37,058,217	\$ 12,715,706	\$ 67,451,823	\$ 16,146,629	\$ 37,602,671	\$ 12,715,706	\$ 66,465,006

See Notes to Financial Statements

The Tech Museum of Innovation
Statements of Activities
Years Ended June 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted (Restated)	Temporarily Restricted	Permanently Restricted	Total (Restated)
Revenues and Other Support								
Public support	\$ 1,049,800	\$ -	\$ -	\$ 1,049,800	\$ 1,169,283	\$ -	\$ -	\$ 1,169,283
Contributed support	131,388	12,770,395	-	12,901,783	1,426,614	10,103,191	-	11,529,805
In-kind contributions	933,719	-	-	933,719	2,575,891	-	-	2,575,891
Donated use of facilities	1,254,969	-	-	1,254,969	1,263,405	-	-	1,263,405
Admissions and fees	3,373,015	-	-	3,373,015	3,040,923	-	-	3,040,923
Investment income (loss), net	48,148	(162,500)	-	(114,352)	23,210	530,255	-	553,465
Rental and other income	2,150,148	-	-	2,150,148	1,653,529	-	-	1,653,529
Net assets released from restrictions	13,152,349	(13,152,349)	-	-	13,364,037	(13,364,037)	-	-
Total revenues and other support	22,093,536	(544,454)	-	21,549,082	24,516,892	(2,730,591)	-	21,786,301
Expenses								
Program services								
Exhibits, programs and experiences	10,929,010	-	-	10,929,010	10,371,575	-	-	10,371,575
Education	2,108,878	-	-	2,108,878	1,802,569	-	-	1,802,569
Visitor services	2,384,068	-	-	2,384,068	2,188,168	-	-	2,188,168
Support services								
Fundraising and membership	1,943,160	-	-	1,943,160	1,781,036	-	-	1,781,036
General and administrative								
Marketing	1,379,128	-	-	1,379,128	1,133,496	-	-	1,133,496
Administration	1,564,955	-	-	1,564,955	1,377,074	-	-	1,377,074
Total expenses	20,309,199	-	-	20,309,199	18,653,918	-	-	18,653,918
Change in Net Assets	1,784,337	(544,454)	-	1,239,883	5,862,974	(2,730,591)	-	3,132,383
Net Assets, beginning of year	14,011,310	37,602,671	12,715,706	64,329,687	8,148,336	40,333,262	12,715,706	61,197,304
Net Assets, end 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

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
Other	92,654	286,291	63,285	442,230	83,643	48,068	23,203	154,914	597,144
Total expenses	<u>\$ 10,929,010</u>	<u>\$ 2,108,878</u>	<u>\$ 2,384,068</u>	<u>\$ 15,421,956</u>	<u>\$ 1,943,160</u>	<u>\$ 1,379,128</u>	<u>\$ 1,564,955</u>	<u>\$ 4,887,243</u>	<u>\$ 20,309,199</u>
Percent of Total Expenses	<u>54%</u>	<u>10%</u>	<u>12%</u>	<u>76%</u>	<u>9%</u>	<u>7%</u>	<u>8%</u>	<u>24%</u>	<u>100%</u>

See Notes to Financial Statements

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

	Programs				Support Services				
	Exhibits, Programs and Experiences	Education	Visitor Services	Total Program Services	Fundraising and Membership	General and Administrative		Total Support Services	Total
						Marketing	Administration		
Salaries	\$ 2,833,454	\$ 799,161	\$ 1,265,711	\$ 4,898,326	\$ 694,924	\$ 554,509	\$ 730,021	\$ 1,979,454	\$ 6,877,780
Payroll Taxes	193,028	56,106	88,610	337,744	48,751	38,981	51,177	138,909	476,653
Benefits	238,454	69,881	108,433	416,768	60,129	48,623	60,371	169,123	585,891
Professional Fees	219,416	68,656	500	288,572	58,460	30,982	140,655	230,097	518,669
Materials and Supplies	355,146	52,283	73,512	480,941	53,682	49,102	52,538	155,322	636,263
Advertising and Public Relations	6,777	6,121	-	12,898	56,133	224,264	-	280,397	293,295
Fees and Services	92,935	12,372	13,379	118,686	3,558	55,151	73,504	132,213	250,899
Royalties	371,080	-	-	371,080	8,933	-	-	8,933	380,013
Bankcard Fees	88,164	-	-	88,164	-	-	-	-	88,164
In-kind Contributions	-	85,583	-	85,583	55,564	-	50,939	106,503	192,086
Travel and Transportation	94,833	3,042	4,187	102,062	14,729	7,165	49,105	70,999	173,061
Occupancy	776,343	198,056	508,079	1,482,478	91,015	65,966	76,112	233,093	1,715,571
Building and Equipment Rental	140,914	28,914	2,569	172,397	544	937	2,156	3,637	176,034
Depreciation and Amortization	1,676,827	48,040	39,662	1,764,529	28,610	38,147	23,842	90,599	1,855,128
Donated Rent	1,224,049	91,359	39,172	1,354,580	24,710	12,355	12,355	49,420	1,404,000
Tech Awards	1,984,714	-	-	1,984,714	506,160	-	-	506,160	2,490,874
Other	75,441	282,995	44,354	402,790	75,134	7,314	54,299	136,747	539,537
Total expenses	<u>\$ 10,371,575</u>	<u>\$ 1,802,569</u>	<u>\$ 2,188,168</u>	<u>\$ 14,362,312</u>	<u>\$ 1,781,036</u>	<u>\$ 1,133,496</u>	<u>\$ 1,377,074</u>	<u>\$ 4,291,606</u>	<u>\$ 18,653,918</u>
Percent of Total Expenses	<u>56%</u>	<u>10%</u>	<u>11%</u>	<u>77%</u>	<u>10%</u>	<u>6%</u>	<u>7%</u>	<u>23%</u>	<u>100%</u>

See Notes to Financial Statements

The Tech Museum of Innovation
Statements of Cash Flows

	Years Ended June 30,	
	2016	2015 (Restated)
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,239,883	\$ 3,132,383
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,638,773	1,855,128
In-kind contribution of marketable securities	(682,296)	(2,421,890)
In-kind donation of property, exhibits and equipment	(329,772)	(1,627,375)
In-kind rent expense related to contributed use of facility	149,031	140,595
Net realized and unrealized gain (loss) on investments	355,015	(330,067)
Change in discount on pledges receivable	131,341	50,749
Retirement of exhibits	9,832	71,595
Change in allowance for doubtful accounts for pledges receivable	-	(25,000)
Changes in operating assets and liabilities:		
Grants and other receivables	(250,018)	(303,272)
Pledges receivable	(2,349,990)	2,450,369
Prepaid expenses and other assets	(563)	(69,941)
Accounts payable and accrued expenses	(388,076)	(463,623)
Deferred revenue	115,336	(78,052)
Net cash provided by operating activities	<u>638,496</u>	<u>2,381,599</u>
Cash Flows from Investing Activities:		
Net proceeds from sale and distribution of investments	2,541,248	1,273,571
Purchase of investments	(400,069)	(2,292,282)
Purchase of property, exhibits and equipment	(3,353,867)	(4,178,394)
Net cash used in investing activities	<u>(1,212,688)</u>	<u>(5,197,105)</u>
Cash Flows from Financing Activities:		
Payments on capital lease obligations	(6,890)	(7,305)
Net cash used in financing activities	<u>(6,890)</u>	<u>(7,305)</u>
Net decrease in cash and cash equivalents	(581,082)	(2,822,811)
Cash and Cash Equivalents, beginning of year	<u>2,509,915</u>	<u>5,332,726</u>
Cash and Cash Equivalents, end of year	<u>\$ 1,928,833</u>	<u>\$ 2,509,915</u>
Supplemental Schedule of Noncash Investing and Financing Activities		
Amounts payable for construction in progress	<u>\$ 26,564</u>	<u>\$ 847,084</u>

See Notes to Financial Statements

The Tech Museum of Innovation

Notes to Financial Statements

1. Nature of Activities

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

The Museum offers interactive exhibits, hands-on science labs, after-school activities, and standards-based educational IMAX films. Additionally, the Museum hosts two annual signature programs. The Tech Challenge is a team competition that inspires thousands of students in grades 5-12 to design and build devices that solve a real world problem. For the past 29 years, The Tech Challenge has reached out to different ethnic and socioeconomic communities to introduce students not only to Science, Technology, Engineering, and Mathematics (STEM) concepts, but also to the thrill of hands-on learning and real-world design. The Tech Awards, which commenced in 2001, is an international program that identifies and honors individuals and teams that develop technological solutions to humanity's most pressing problems.

The Museum's personnel and volunteers welcome approximately 400,000 visitors annually to the galleries. They also assist visitors with ticketing, choosing programs, and assessing educational opportunities, such as IMAX film presentations. More than 7,000 member households help support the Museum.

2. Significant Accounting Policies

Basis of Presentation:

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

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

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

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Basis of Presentation: (continued)

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

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

Estimates:

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

Revenue Recognition:

The Museum recognizes grants, contributions and unconditional promises to give (pledges) as revenue at their fair value in the period the donor makes the contribution or pledge that is, in substance, unconditional. Conditional promises to give and support are not recognized until the 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 year following the period of receipt. Amounts received for services or events not yet provided are classified as deferred revenue, and are recognized in the period in which the service is provided or the event takes place.

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

In-Kind Donations:

The Museum records various types of in-kind donations including professional services, tangible assets, use of tangible assets and marketable securities. 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 2016, the Museum recognized in-kind contribution revenue of \$934,000 (in-kind contribution revenue of \$2,576,000 in 2015). Expenses related to these in-kind donations are recognized in the Statements of Functional Expenses as in-kind contributions of \$280,000 (in-kind contributions of \$192,000 in 2015) and Tech Awards expense of \$324,000 (Tech Awards expense of \$757,000 in 2015). The remaining \$330,000 represents donated property, exhibits and equipment (\$1,627,000 represents donated property, exhibits and equipment in 2015).

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.

Fair Value Measurements:

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

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (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 securities existed, and the differences could be material.

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

Pledges receivable that are not due within one year are recorded at estimated fair value. The Museum estimated fair value by discounting future cash flows to present value using the discount rate at the date of the financial statements, which considers the risk free-rate and a risk premium based on the donor's credit worthiness. At June 30, 2016 and 2015, the Museum applied a discount rate of 2.25%.

Fair Value of Financial Instruments:

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 (NAV) per share 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 \$11,416,000 at June 30, 2015 that were valued using NAV and have been removed from the fair value hierarchy.

Concentrations of Credit Risk:

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

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Concentrations of Credit Risk: (continued)

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

Property, Exhibits and Equipment:

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

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

Accounting for Impairment of Long-Lived Assets:

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

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.

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Income Taxes: (continued)

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

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

The Museum applies the provisions set forth in FASB Accounting Standards Codification Topic 740 to account for uncertainty in income taxes. The Museum assessed all income tax positions taken where the statute of limitation remained open. The Museum believes that its tax filing positions will be sustained upon tax examinations; therefore, no liability for unrecognized income tax benefits has been recorded through June 30, 2016. 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 (\$272,000 in 2016 and \$270,000 in 2015), which is included in exhibits, programs and experiences, and to fundraising and membership (\$91,000 in 2016 and \$90,000 in 2015) 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 2016 (\$667,000 in 2015).

The Tech Museum of Innovation

Notes to Financial Statements

2. Significant Accounting Policies (continued)

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 restrictions”); requiring expenses to be reported by function and nature; and providing disclosures on the entity’s operating measures and liquidity. ASU 2016-14 is effective for the Museum as of July 1, 2018 and requires a retrospective transition approach for its adoption. The Museum is currently evaluating the impact of ASU 2016-14 on its financial statements and related disclosures.

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. The Museum is currently evaluating the effect ASU 2016-02 will have in its financial statements and related disclosures. Management expects the assets leased under operating leases similar to the leases disclosed in Note 10 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.

3. Correction of an Error

In 2016, the Museum determined that the contribution of a license to use technology critical to the functionality of one of its exhibits was not recorded in 2015. The result of the error on the June 30, 2015 financial statements was an understatement of in-kind contribution revenue and property, exhibits, and equipment of \$1,000,000, and an understatement of depreciation and accumulated depreciation on exhibits of \$67,000. Unrestricted net assets at June 30, 2015, previously reported at \$13,078,000, were increased to \$14,011,000 for a net effect of \$933,000 on changes in net assets for the year ended June 30, 2015.

The Tech Museum of Innovation
Notes to Financial Statements

4. Pledges Receivable

The following table represents pledges receivable at June 30:

	<u>2016</u>	<u>2015</u>
The Tech 3.0 Campaign	\$ 7,264,000	\$ 5,536,000
Other	<u>1,570,000</u>	<u>1,080,000</u>
Net pledges receivable	<u>\$ 8,834,000</u>	<u>\$ 6,616,000</u>
Receivable in less than one year	\$ 3,681,000	\$ 2,807,000
Receivable in one to five years	4,888,000	4,013,000
Greater than five years	<u>600,000</u>	<u>-</u>
Subtotal	9,169,000	6,820,000
Less: allowance for doubtful accounts	(25,000)	(25,000)
Less: unamortized discount to present value	<u>(310,000)</u>	<u>(179,000)</u>
Net pledges receivable	<u>\$ 8,834,000</u>	<u>\$ 6,616,000</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, 2016, the Museum has raised \$35,399,000 in relation to the Campaign, of which \$28,135,000 had been received.

The Tech Museum of Innovation
Notes to Financial Statements

5. Investments

Investments consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Unrestricted and temporarily restricted investments:		
Certificates of deposit	\$ 8,226,132	\$ 9,167,764
Equity funds	827,301	1,805,724
Money market funds	<u>188,925</u>	<u>93,76</u>
Total	<u>\$ 9,242,358</u>	<u>\$ 11,067,256</u>
Permanently restricted investments:		
Equity funds	\$ 7,790,799	\$ 7,678,794
Fixed income funds	3,745,251	3,786,222
Venture capital funds	<u>1,179,656</u>	<u>1,239,690</u>
Total	<u>\$ 12,715,706</u>	<u>\$ 12,704,706</u>

Investments are valued as follows at June 30:

	<u>2016</u>	<u>2015</u>
Net asset value	\$ 10,519,489	\$ 11,415,789
Fair value	<u>11,438,575</u>	<u>12,356,173</u>
Total	<u>\$ 21,958,064</u>	<u>\$ 23,771,962</u>

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

The Tech Museum of Innovation

Notes to Financial Statements

5. Investments (continued)

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

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 284,153	\$ 265,287
Net realized and unrealized gain (loss)	(355,015)	330,067
Investment management expenses	<u>(43,490)</u>	<u>(41,889)</u>
	<u>\$ (114,352)</u>	<u>\$ 553,465</u>

6. Fair Value Measurements

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

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

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

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

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

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

The Tech Museum of Innovation
Notes to Financial Statements

6. Fair Value Measurements (continued)

Level III Valuation Techniques:

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

Level III Valuation Process:

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

The following table 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	\$ 8,226,133	\$ -	\$ -	\$ 8,226,133
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>\$ 8,415,058</u>	<u>\$ 1,843,861</u>	<u>\$ 1,179,656</u>	<u>\$ 11,438,575</u>

The Tech Museum of Innovation
Notes to Financial Statements

6. Fair Value Measurements (continued)

The following table presents the investments carried at fair value as of June 30, 2015 under the three-level hierarchy:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Certificates of deposit	\$ 9,167,764	\$ -	\$ -	\$ 9,167,764
Money market funds	93,768	-	-	93,768
Fixed income funds	-	1,854,951	-	1,854,951
Venture capital funds	-	-	1,239,690	1,239,690
Total	<u>\$ 9,261,532</u>	<u>\$ 1,854,951</u>	<u>\$ 1,239,690</u>	<u>\$ 12,356,173</u>

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, 2016 and 2015.

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

While the fund manager or general partner believes the valuation methods used are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of the 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 Museum has commitments to invest additional capital to fund certain of its non-marketable investments. At June 30, 2016, the Museum had future capital call commitments of \$519,000, which are payable when required by the fund manager.

The following tables include a roll-forward of the amounts in the Statements of Financial Position for the years ended June 30, 2016 and 2015 (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.

The Tech Museum of Innovation
Notes to Financial Statements

6. Fair Value Measurements (continued)

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

Investment activity in in the Museum's Level III investments consists of the following for the year ended June 30, 2015:

	July 1, 2014	Contributions	Realized and Unrealized Gain	Investment Loss	Distributions	June 30, 2015
Venture capital funds	\$ 1,179,656	\$ 195,002	\$ 109,308	\$ (8,557)	\$ (235,719)	\$ 1,239,690

7. Property, Exhibits and Equipment

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

	2016	2015
Exhibits	\$ 17,011,028	\$ 13,806,967
Building and leasehold improvements	11,266,230	11,255,326
Equipment	6,163,004	5,572,852
Construction in progress	115,565	2,804,862
	34,555,827	33,440,007
Accumulated depreciation and amortization	(21,502,741)	(21,448,519)
Property, exhibits and equipment, net	\$ 13,053,086	\$ 11,991,488

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 2016, the Museum recognized a retirement loss of \$10,000 on exhibits under construction that were capitalized in prior years that would not be placed into service (\$36,000 in 2015).

The Tech Museum of Innovation
Notes to Financial Statements

8. 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>2016</u>	<u>2015</u>
Total benefit in interest in use of facility	\$ 52,650,000	\$ 54,054,000
Less discount at 6% to net present value	<u>(31,882,875)</u>	<u>(33,137,844)</u>
Net beneficial interest in use of facility	<u>\$ 20,767,125</u>	<u>\$ 20,916,156</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>2016</u>	<u>2015</u>
Rent expense	\$ 1,404,000	\$ 1,404,000
Amortization of discount	<u>(1,254,969)</u>	<u>(1,263,405)</u>
Net decrease in temporarily restricted net assets	<u>\$ 149,031</u>	<u>\$ 140,595</u>

9. Line of Credit

The Museum has a \$2,000,000 line of credit with a bank, which the bank has extended annually. The line of credit expires in January 2017. Borrowings under the agreement bear interest at the bank's prime rate (3.50% at June 30, 2016) and are secured by all deposits and accounts maintained with the bank. The Museum did not borrow any amounts against the line in 2016 or 2015.

The Tech Museum of Innovation

Notes to Financial Statements

10. Lease Arrangements

Operating Leases:

The Museum leases a facility in San Jose, California under a non-cancelable operating lease agreement, which expires in December 2018. The facility rent expense was \$50,000 in 2016 (\$50,000 in 2015). Future minimum lease payments under the non-cancelable lease agreements are as follows:

Years ending June 30:	
2017	\$ 54,000
2018	56,000
2019	<u>28,000</u>
	<u>\$ 138,000</u>

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

As of June 30, 2016, the balance of the prepaid rent was \$27,000 (\$109,000 as of June 30, 2015).

The Tech Museum of Innovation
Notes to Financial Statements

10. Lease Arrangements (continued)

Capital Leases:

In 2014, the Museum purchased \$35,700 of equipment under a capital lease arrangement. The lease requires monthly principal and interest payments, with interest at 3% per annum, through June 2019. The net book value on the equipment financed was \$23,000 at June 30, 2016.

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

Years ending June 30,		
2017	\$	8,000
2018		8,000
2019		<u>8,000</u>
Total lease payments		24,000
Less: amount representing interest		<u>(1,000)</u>
Capital lease obligation	\$	<u><u>23,000</u></u>

11. 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>2016</u>	<u>2015</u>
Beneficial interest in use of facility (time restriction)	\$ 20,767,125	\$ 20,916,156
Special projects (time and purpose restrictions)	-	296,602
Operations (time and purpose restrictions)	5,183,816	7,021,438
Receivables (time and purpose restrictions)	9,251,540	6,604,828
Undesignated endowment income (time restriction)	<u>1,855,736</u>	<u>2,763,647</u>
	<u>\$ 37,058,217</u>	<u>\$ 37,602,671</u>

Permanently restricted net assets of \$12,715,706 at June 30, 2016 and 2015 consist of investments held in perpetuity and a pledge receivable.

The Tech Museum of Innovation
Notes to Financial Statements

12. 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>2016</u>	<u>2015</u>
Beneficial interest in use of facility (time restriction)	\$ 149,031	\$ 140,595
Special projects (time and purpose restrictions)	296,602	714,934
Operations (time and purpose restrictions)	11,962,716	11,825,508
Designated endowment income (time restriction)	<u>744,000</u>	<u>683,000</u>
	<u>\$ 13,152,349</u>	<u>\$ 13,364,037</u>

13. 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

13. 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, 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>\$ 14,571,442</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ -	\$ 12,715,706	\$ 12,715,706
Undesignated Endowment Income	-	2,763,473	-	2,763,473
	<u>\$ -</u>	<u>\$ 2,763,473</u>	<u>\$ 12,715,706</u>	<u>\$ 15,479,179</u>

The Tech Museum of Innovation
Notes to Financial Statements

13. Endowment (continued)

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	-	(744,000)	-	(744,000)
Endowment Assets, end of year	<u>\$ -</u>	<u>\$ 1,855,736</u>	<u>\$ 12,715,706</u>	<u>\$ 14,571,442</u>

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

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

13. 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.

At June 30, 2016, the fair value of endowment assets exceeded their cost by \$1,855,736 (\$2,763,473 at June 30, 2015).

14. Related Parties

The Museum's Board of Directors (the Board) is active in oversight of fundraising events, activities and in making private contributions. Contributions received from the Board or from companies with which Board members are affiliated with were \$4,202,000 in 2016 (\$4,390,000 in 2015). Amounts due from the Board and affiliates are \$3,049,000 at June 30, 2016 (\$3,235,000 at June 30, 2015).

15. Subsequent Events

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