

**The Tech Museum of Innovation**

**Financial Statements**

**June 30, 2013 and 2012**

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

Certified  
Public  
Accountants

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of The Tech Museum of Innovation (the Organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Palo Alto  
San Francisco  
San Jose  
St. Helena  
New York

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Tech Museum of Innovation as of June 30, 2013 and 2012, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Frank, Rimerman + Co. LLP*

San Jose, California  
October 28, 2013

## The Tech Museum of Innovation Statements of Financial Position

	June 30, 2013				June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>ASSETS</b>								
Cash and Cash Equivalents	\$ 446,523	\$ 1,824,634	\$ -	\$ 2,271,157	\$ 74,656	\$ 1,623,368	\$ -	\$ 1,698,024
Grants and Other Receivables	253,394	1,061,463	-	1,314,857	-	2,051,971	-	2,051,971
Pledges Receivable, net of discount and allowance for doubtful accounts of \$52,000	-	12,089,086	11,000	12,100,086	-	12,853,356	11,000	12,864,356
Prepaid Expenses and Other Assets	208,857	-	-	208,857	303,250	-	-	303,250
Investments	-	4,921,251	12,704,706	17,625,957	12,256	2,225,529	12,704,706	14,942,491
Property, Exhibits and Equipment, net	6,465,188	-	-	6,465,188	5,353,498	-	-	5,353,498
Beneficial Interest in Use of Facility, net	-	21,189,388	-	21,189,388	-	21,314,517	-	21,314,517
<b>Total assets</b>	<b>\$ 7,373,962</b>	<b>\$ 41,085,822</b>	<b>\$ 12,715,706</b>	<b>\$ 61,175,490</b>	<b>\$ 5,743,660</b>	<b>\$ 40,068,741</b>	<b>\$ 12,715,706</b>	<b>\$ 58,528,107</b>
<b>LIABILITIES AND NET ASSETS</b>								
<b>Liabilities</b>								
Accounts payable	\$ 837,080	\$ -	\$ -	\$ 837,080	\$ 360,093	\$ -	\$ -	\$ 360,093
Accrued expenses	340,137	-	-	340,137	327,059	-	-	327,059
Deferred revenue	385,097	-	-	385,097	332,841	-	-	332,841
Capital lease obligation	11,854	-	-	11,854	21,690	-	-	21,690
<b>Total liabilities</b>	<b>1,574,168</b>	<b>-</b>	<b>-</b>	<b>1,574,168</b>	<b>1,041,683</b>	<b>-</b>	<b>-</b>	<b>1,041,683</b>
Commitments (Notes 4, 8 and 9)								
<b>Net Assets</b>								
Unrestricted	5,799,794	-	-	5,799,794	4,701,977	-	-	4,701,977
Temporarily restricted	-	41,085,822	-	41,085,822	-	40,068,741	-	40,068,741
Permanently restricted	-	-	12,715,706	12,715,706	-	-	12,715,706	12,715,706
<b>Total net assets</b>	<b>5,799,794</b>	<b>41,085,822</b>	<b>12,715,706</b>	<b>59,601,322</b>	<b>4,701,977</b>	<b>40,068,741</b>	<b>12,715,706</b>	<b>57,486,424</b>
<b>Total liabilities and net assets</b>	<b>\$ 7,373,962</b>	<b>\$ 41,085,822</b>	<b>\$ 12,715,706</b>	<b>\$ 61,175,490</b>	<b>\$ 5,743,660</b>	<b>\$ 40,068,741</b>	<b>\$ 12,715,706</b>	<b>\$ 58,528,107</b>

See Notes to Financial Statements

**The Tech Museum of Innovation**  
**Statements of Activities**  
**Years Ended June 30, 2013 and 2012**

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and Other Support</b>								
Public support	\$ 1,049,750	\$ -	\$ -	\$ 1,049,750	\$ 1,105,000	\$ -	\$ -	\$ 1,105,000
Contributed support	2,070,093	7,668,618	-	9,738,711	1,976,250	18,562,866	-	20,539,116
In-kind contributions	1,658,979	-	-	1,658,979	1,491,269	-	-	1,491,269
Donated use of facilities	1,285,955	-	-	1,285,955	1,285,955	-	-	1,285,955
Admissions and fees	2,562,348	-	-	2,562,348	1,780,503	-	-	1,780,503
Investment income, net	10,759	1,867,332	-	1,878,091	146	-	-	146
Rental and other income	1,207,483	-	-	1,207,483	953,750	-	-	953,750
Net assets released from restrictions	8,518,869	(8,518,869)	-	-	5,252,037	(5,252,037)	-	-
<b>Total revenues and other support</b>	<b>18,364,236</b>	<b>1,017,081</b>	<b>-</b>	<b>19,381,317</b>	<b>13,844,910</b>	<b>13,310,829</b>	<b>-</b>	<b>27,155,739</b>
<b>Expenses</b>								
<b>Program services</b>								
Exhibits, programs and experiences	10,651,442	-	-	10,651,442	9,007,232	-	-	9,007,232
Education	1,222,419	-	-	1,222,419	985,757	-	-	985,757
Visitor services	1,402,797	-	-	1,402,797	1,629,218	-	-	1,629,218
<b>Support services</b>								
Fundraising and membership	1,855,936	-	-	1,855,936	1,498,456	-	-	1,498,456
<b>General and administrative</b>								
Marketing	928,387	-	-	928,387	860,539	-	-	860,539
Administration	1,205,438	-	-	1,205,438	1,026,238	-	-	1,026,238
<b>Total expenses</b>	<b>17,266,419</b>	<b>-</b>	<b>-</b>	<b>17,266,419</b>	<b>15,007,440</b>	<b>-</b>	<b>-</b>	<b>15,007,440</b>
Change in Net Assets	1,097,817	1,017,081	-	2,114,898	(1,162,530)	13,310,829	-	12,148,299
Net Assets, beginning of year	4,701,977	40,068,741	12,715,706	57,486,424	5,864,507	26,757,912	12,715,706	45,338,125
Net Assets, end of year	\$ 5,799,794	\$ 41,085,822	\$ 12,715,706	\$ 59,601,322	\$ 4,701,977	\$ 40,068,741	\$ 12,715,706	\$ 57,486,424

See Notes to Financial Statements

**The Tech Museum of Innovation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2013**

	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	\$ 2,057,669	\$ 566,576	\$ 943,522	\$ 3,567,767	\$ 582,209	\$ 322,816	\$ 639,447	\$ 1,544,472	\$ 5,112,239
Payroll Taxes	123,966	38,566	66,389	228,921	40,798	21,549	41,118	103,465	332,386
Benefits	161,222	40,794	71,595	273,611	41,127	23,101	35,612	99,840	373,451
Professional Fees	205,833	35,148	39,000	279,981	246,111	18,165	126,066	390,342	670,323
Materials and Supplies	326,099	25,449	110,732	462,280	51,446	30,311	53,877	135,634	597,914
Advertising and Public Relations	337,686	4,390	-	342,076	90	290,943	-	291,033	633,109
Fees and Services	568,979	946	7,667	577,592	-	39,934	76,524	116,458	694,050
Royalties	459,367	-	-	459,367	2,631	-	(45)	2,586	461,953
Bankcard Fees	80,329	-	-	80,329	-	-	-	-	80,329
In-kind Contributions	652,216	18,310	-	670,526	330,525	46,088	93,900	470,513	1,141,039
Travel and Transportation	59,775	27,598	9,790	97,163	5,223	2,870	18,903	26,996	124,159
Occupancy	1,298,061	111,048	66,985	1,476,094	40,029	94,173	30,361	164,563	1,640,657
Building and Equipment Rental	211,930	5,827	671	218,428	-	650	1,428	2,078	220,506
Depreciation and Amortization	1,069,812	28,860	30,947	1,129,619	32,628	18,645	34,471	85,744	1,215,363
Donated Rent	1,224,051	91,359	39,154	1,354,564	24,718	12,359	12,359	49,436	1,404,000
Tech Awards	1,704,026	-	-	1,704,026	404,958	-	-	404,958	2,108,984
Retirement of Exhibits	40,879	-	-	40,879	-	-	-	-	40,879
Other	69,542	227,548	16,345	313,435	53,443	6,783	41,417	101,643	415,078
Total expenses	<u>\$ 10,651,442</u>	<u>\$ 1,222,419</u>	<u>\$ 1,402,797</u>	<u>\$ 13,276,658</u>	<u>\$ 1,855,936</u>	<u>\$ 928,387</u>	<u>\$ 1,205,438</u>	<u>\$ 3,989,761</u>	<u>\$ 17,266,419</u>
Percent of Total Expenses	<u>62%</u>	<u>7%</u>	<u>8%</u>	<u>77%</u>	<u>11%</u>	<u>5%</u>	<u>7%</u>	<u>23%</u>	<u>100%</u>

See Notes to Financial Statements

**The Tech Museum of Innovation**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2012**

	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	\$ 1,438,277	\$ 474,910	\$ 1,046,823	\$ 2,960,010	\$ 380,347	\$ 317,162	\$ 514,124	\$ 1,211,633	\$ 4,171,643
Payroll Taxes	105,658	34,883	75,664	216,205	29,550	23,074	30,406	83,030	299,235
Benefits	77,871	28,425	55,419	161,715	22,790	16,626	28,270	67,686	229,401
Professional Fees	151,146	-	21,971	173,117	120,000	112,186	173,534	405,720	578,837
Materials and Supplies	290,488	17,552	155,272	463,312	46,922	7,371	43,953	98,246	561,558
Advertising and Public Relations	268,757	2,033	16,872	287,662	3,780	255,413	-	259,193	546,855
Fees and Services	479,329	1,775	69,760	550,864	2,436	43,437	85,685	131,558	682,422
Royalties	286,148	-	-	286,148	-	-	-	-	286,148
Bankcard Fees	55,477	-	-	55,477	-	-	-	-	55,477
In-kind Contributions	735,101	20,067	1,553	756,721	346,696	7,056	4,943	358,695	1,115,416
Travel and Transportation	32,985	77,952	16,893	127,830	4,712	9,442	26,225	40,379	168,209
Occupancy	1,026,537	78,771	63,501	1,168,809	30,767	32,987	20,203	83,957	1,252,766
Building and Equipment Rental	220,475	8,803	2,906	232,184	-	6,314	-	6,314	238,498
Depreciation and Amortization	1,035,726	27,375	33,394	1,096,495	21,662	16,247	37,909	75,818	1,172,313
Donated Rent	1,224,051	91,359	39,154	1,354,564	24,718	12,359	12,359	49,436	1,404,000
Tech Awards	1,129,302	-	-	1,129,302	382,939	-	-	382,939	1,512,241
Retirement of Exhibits	352,224	-	-	352,224	-	-	-	-	352,224
Other	97,680	121,852	30,036	249,568	81,137	865	48,627	130,629	380,197
<b>Total expenses</b>	<b>\$ 9,007,232</b>	<b>\$ 985,757</b>	<b>\$ 1,629,218</b>	<b>\$ 11,622,207</b>	<b>\$ 1,498,456</b>	<b>\$ 860,539</b>	<b>\$ 1,026,238</b>	<b>\$ 3,385,233</b>	<b>\$ 15,007,440</b>
Percent of Total Expenses	60%	6%	11%	77%	10%	6%	7%	23%	100%

See Notes to Financial Statements

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

	Years Ended June 30,	
	2013	2012
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,114,898	\$ 12,148,299
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,215,364	1,172,313
In-kind donation of property and equipment	(224,297)	(375,853)
In-kind rent expense related to promised use of facility, net	125,129	118,045
Net realized and unrealized (gain) loss on investments	(1,677,619)	217,262
Change in discount on pledges receivable	(75,411)	345,150
Retirement of exhibits	40,879	352,224
Changes in operating assets and liabilities:		
Grants and other receivables	737,114	(925,117)
Pledges receivable	839,681	(11,790,000)
Prepaid expenses and other assets	94,393	(97,478)
Accounts payable and accrued expenses	22,343	36,288
Deferred revenue	52,256	(6,198)
Net cash provided by operating activities	<u>3,264,730</u>	<u>1,194,935</u>
Cash Flows from Investing Activities:		
Net proceeds from sale of investments	1,287,918	1,541,037
Purchase of investments	(2,293,765)	(654,640)
Purchase of property, exhibits and equipment	(1,675,914)	(769,840)
Net cash provided by (used in) investing activities	<u>(2,681,761)</u>	<u>116,557</u>
Cash Flows from Financing Activities:		
Payments on capital lease obligation	(9,836)	(9,546)
Net cash used in financing activities	<u>(9,836)</u>	<u>(9,546)</u>
Net increase in cash and cash equivalents	573,133	1,301,946
Cash and Cash Equivalents, beginning of year	<u>1,698,024</u>	<u>396,078</u>
Cash and Cash Equivalents, end of year	<u>\$ 2,271,157</u>	<u>\$ 1,698,024</u>
Supplemental Schedule of Noncash Investing Activities		
Amounts payable for construction in progress	<u>\$ 467,722</u>	<u>\$ -</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 Organization) is to inspire the innovator in everyone. The Organization 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 Organization will inspire learning and invigorate innovation locally, nationally, and globally.

The Organization offers interactive exhibits, hands-on science labs, after-school activities, and standards-based educational IMAX films. Additionally, the Organization 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 26 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 Organization's staff and volunteers welcome approximately 400,000 visitors annually to the permanent galleries and traveling exhibitions. They also assist visitors with ticketing, choosing programs, and assessing educational opportunities, such as IMAX film presentations. More than 7,000 member households help support the Organization, including approximately 1,000 local educators.

#### 2. Significant Accounting Policies

##### *Basis of Presentation:*

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

## The Tech Museum of Innovation

### Notes to Financial Statements

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

##### *Basis of Presentation:* (continued)

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

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

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

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

##### *Estimates:*

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

##### *Revenue Recognition:*

The Organization recognizes grants, contributions and unconditional promises to give (pledges) as revenue at their fair value in the period the donor makes the contribution or pledge that is, in substance, unconditional. Conditional promises to give and support are not recognized until the conditions are met. The Organization distinguishes among contributions that increase any of the three categories of net assets, with recognition being made of the expiration of donor-imposed restrictions in the period in which the restrictions expire. Grants and contributions to be received after one year are reflected at the present value of estimated future cash flows.

## The Tech Museum of Innovation

### Notes to Financial Statements

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

##### *Revenue Recognition:* (continued)

Admissions are recorded when received. Membership dues are deferred upon receipt and recognized ratably over the membership period, generally for one year following the period of receipt. Amounts received for services or events not yet provided are classified as deferred revenue, and are recognized in the period in which the service is provided or the event takes place.

##### *In-Kind Donations:*

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

In 2013, the Organization recognized in-kind contribution revenue of \$1,659,000 (in-kind contribution revenue of \$1,491,000 in 2012). Expenses related to these in-kind donations are recognized in the Statement of Functional Expenses as in-kind contributions of \$1,141,000 (in-kind contributions of \$1,115,000 in 2012) and Tech Awards expense of \$294,000 (no Tech Awards expense in 2012). The remaining \$224,000 represents donated property, exhibits and equipment (\$376,000 represents donated property, exhibits and equipment in 2012).

##### *Cash Equivalents:*

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

## The Tech Museum of Innovation

### Notes to Financial Statements

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

##### *Fair Value Measurements:*

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

Investments in private equity 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 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 at the Organization's percentage interest owned in these funds. 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 Organization 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 donors credit worthiness. At June 30, 2013, the Organization applied a discount rate of 2.25% (discount rates from 2.5% to 2.8% at June 30, 2012).

##### *Concentrations of Credit Risk:*

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

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 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 Organization on a regular basis. The Organization 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 Organization 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 Organization 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 Organization 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 Organization 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 Organization 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 Organization 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 Organization does not believe it has UBTI that will result in an income tax liability.

The Organization applies the provisions set forth in Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740 to account for uncertainty in income taxes. The Organization assessed all income tax positions taken where the statute of limitation remained open. The Organization believes that its tax filing positions will be sustained upon tax examinations; therefore, no liability for unrecognized income tax benefits has been recorded at June 30, 2013. The Organization 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 Organization'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 (\$234,000 in 2013 and \$235,000 in 2012), which is included in exhibits, programs and experiences, and to fundraising and membership (\$81,000 in 2013 and \$78,000 in 2012) in the Statements of Functional Expenses.

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

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2. Significant Accounting Policies (continued)

*Advertising:*

Costs associated with advertising are expensed when incurred. Advertising expenses, including in-kind services, were \$1,047,000 in 2013 (\$979,000 in 2012).

3. Pledges Receivable

The following table represents pledges receivable at June 30:

	<u>2013</u>	<u>2012</u>
The Tech 3.0 Campaign	\$ 11,746,000	\$ 12,000,000
Other	<u>761,000</u>	<u>1,346,000</u>
	<u>\$ 12,507,000</u>	<u>\$ 13,346,000</u>
Receivable in less than one year	\$ 3,837,000	\$ 4,216,000
Receivable in one to five years	8,670,000	9,115,000
Receivable in more than five years	<u>-</u>	<u>15,000</u>
Subtotal	12,507,000	13,346,000
Less: allowance for doubtful accounts	(52,000)	(52,000)
Less: unamortized discount to present value	<u>(355,000)</u>	<u>(430,000)</u>
Net pledges receivable	<u>\$ 12,100,000</u>	<u>\$ 12,864,000</u>

In 2012, the Organization established The Tech 3.0 Campaign (the Campaign) with a goal to raise \$50,000,000 by 2017. The amounts raised will be used to fund various programs and functions of the Organization, including construction and ongoing staffing and maintenance of new exhibits. Through June 30, 2013, the Organization has raised \$16,923,000 in relation to the Campaign, of which \$5,177,000 had been received (\$13,000,000 through June 30, 2012, of which \$1,000,000 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>2013</u>	<u>2012</u>
Unrestricted and temporarily restricted investments:		
Certificates of deposit	\$ 4,544,330	\$ 2,225,529
Equity funds	361,372	-
Money market funds	<u>15,549</u>	<u>12,256</u>
Total	<u>\$ 4,921,251</u>	<u>\$ 2,237,785</u>
Permanently restricted investments:		
Equity funds	\$ 7,927,542	\$ 7,687,984
Fixed income funds	3,601,868	3,532,403
Commodity fund	242,701	266,170
Venture capital funds	932,595	910,041
Certificates of deposit	<u>-</u>	<u>308,108</u>
Total	<u>\$ 12,704,706</u>	<u>\$ 12,704,706</u>

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

Investment income comprise of the following for the years ended June 30:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 261,599	\$ 277,593
Net realized and unrealized gains (losses)	1,677,619	(217,262)
Investment management expenses	<u>(61,127)</u>	<u>(60,185)</u>
	<u>\$ 1,878,091</u>	<u>\$ 146</u>

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

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4. Investments (continued)

The Organization 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 Organization 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 securities are not necessarily an indication of the risk associated with investing in those securities.

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

**Level 1:** Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2:** 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 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The following table presents the investments carried at fair value as of June 30, 2013 under the three-level hierarchy:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 4,544,330	\$ -	\$ 4,544,330
Money market funds	15,549	-	15,549
Equity funds:			
Domestic	-	7,684,510	7,684,510
International	-	604,404	604,404
Domestic fixed income funds	-	3,601,868	3,601,868
Commodity fund	-	242,701	242,701
Venture capital funds	-	932,595	932,595
Total	<u>\$ 4,559,879</u>	<u>\$ 13,066,078</u>	<u>\$ 17,625,957</u>

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

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4. Investments (continued)

The following table presents the investments carried at fair value as of June 30, 2012 under the three-level hierarchy:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 2,533,637	\$ -	\$ 2,533,637
Money market funds	12,256	-	12,256
Equity funds:			
Domestic	-	7,193,284	7,193,284
International	-	494,700	494,700
Domestic fixed income funds	-	3,532,403	3,532,403
Commodity fund	-	266,170	266,170
Venture capital funds	-	910,041	910,041
Total	<u>\$ 2,545,893</u>	<u>\$ 12,396,598</u>	<u>\$ 14,942,491</u>

At June 30, 2013, the Organization's investment in equity funds includes five funds offered by the same investment firm. The five funds are comprised of cash and cash equivalents, common stock, equities, commodities and a wide range of other investment categories, with varying levels of marketability. The redemption frequency of these funds ranges from weekly to monthly, with five business days notice.

The tables below include a roll-forward of the amounts in the Statements of Financial Position for the years ended June 30, 2013 and 2012 (including the change in fair value) for non-marketable securities classified by the Organization within Level 3 of the fair value hierarchy. When a determination is made to classify an investment within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement; however, Level 3 investments typically include, in addition to the unobservable or Level 3 inputs, observable components (that is, components that are actively quoted or can be validated to market-based sources). The gains and losses in the table below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

## The Tech Museum of Innovation

### Notes to Financial Statements

#### 4. Investments (continued)

Investment activity in in the Organization's non-marketable securities consists of the following for the year ended June 30, 2013:

	July 1, 2012	Contributions	Realized and Unrealized Gain (Loss)	Investment Income (Loss)	Distributions	June 30, 2013
Commonfund Institutional Multi-Strategy Equity Fund, LLC	\$ 7,193,284	\$ -	\$ 1,375,619	\$ 79,218	\$ (963,611)	\$ 7,684,510
Commonfund Institutional Multi-Strategy Bond Fund, LLC	1,757,984	-	(321)	56,347	-	1,814,010
Commonfund Institutional High Quality Bond Fund, LLC	1,774,419	-	(37,851)	51,289	-	1,787,857
Commonfund Institutional International Equity Fund, LLC	494,700	-	98,227	11,477	-	604,404
Commonfund Institutional Commodities LTD	266,170	-	(23,530)	61	-	242,701
Legacy Venture V, LLC	460,017	90,000	53,234	(20,637)	(42,875)	539,739
University Technology Ventures, LP	450,024	-	224,262	-	(281,429)	392,857
Total	<u>\$ 12,396,598</u>	<u>\$ 90,000</u>	<u>\$ 1,689,640</u>	<u>\$ 177,755</u>	<u>\$ (1,287,915)</u>	<u>\$ 13,066,078</u>

Investment activity in in the Organization's non-marketable securities consists of the following for the year ended June 30, 2012:

	July 1, 2011	Contributions	Realized and Unrealized Gain (Loss)	Investment Income (Loss)	Distributions	June 30, 2012
Commonfund Institutional Multi-Strategy Equity Fund, LLC	\$ 7,981,203	\$ -	\$ (249,724)	\$ 73,943	\$ (612,138)	\$ 7,193,284
Commonfund Institutional Multi-Strategy Bond Fund, LLC	1,756,166	-	52,367	61,590	(112,139)	1,757,984
Commonfund Institutional High Quality Bond Fund, LLC	1,718,767	-	72,522	57,922	(74,792)	1,774,419
Commonfund Institutional International Equity Fund, LLC	640,646	-	(111,807)	10,526	(44,666)	494,700
Commonfund Institutional Commodities LTD	-	285,000	(18,875)	45	-	266,170
Legacy Venture V, LLC	321,104	150,000	30,129	(20,969)	(20,247)	460,017
University Technology Ventures, LP	604,000	-	23,682	(601)	(177,056)	450,024
Total	<u>\$ 13,021,886</u>	<u>\$ 435,000</u>	<u>\$ (201,706)</u>	<u>\$ 182,456</u>	<u>\$ (1,041,038)</u>	<u>\$ 12,396,598</u>

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 4. Investments (continued)

For Level 3 investments, which do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company, the Organization uses the net asset value method to determine the fair value of the investment. Significant portions of the assets comprising the value of the Organization's Level 3 investments are investments that are not readily marketable. As a result, the fair values of these portfolio investments recorded in the financial statements have been estimated by the fund managers of these private equity funds based on a variety of factors deemed relevant by the fund manager.

#### Level 3 Valuation Techniques:

Private Equity Funds and Limited Partnerships – In determining fair value, 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 3 Valuation Process:

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

The following table summarizes the quantitative inputs and assumptions used for investments categorized as Level 3 under the fair value hierarchy as of June 30, 2013 and 2012.

	<u>Valuation Technique</u>	<u>Unobservable Input</u>
Private equity funds and limited partnerships	Market approach	Illiquidity discount

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

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4. Investments (continued)

While the fund managers and general partners believe their valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of the non-marketable investments could result in a different estimate of fair value at the reporting date. Estimated fair values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

Distributions from the private equity funds are received through the liquidation of its underlying assets. At June 30, 2013, some of the Organization's Level 3 investments have varying redemption options to provide the Organization with liquidity, either quarterly or annually.

The Organization has commitments to invest additional capital to fund certain of its Level 3 investments. At June 30, 2013, the Organization had future capital call commitments of \$256,000, which are payable when required by the fund manager.

5. Property, Exhibits and Equipment

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

	<u>2013</u>	<u>2012</u>
Exhibits	\$ 11,215,956	\$ 12,524,720
Building and leasehold improvements	10,029,642	9,966,579
Equipment	4,433,931	4,645,980
Construction in progress	<u>1,852,416</u>	<u>121,386</u>
	27,531,945	27,258,665
Accumulated depreciation and amortization	<u>(21,066,757)</u>	<u>(21,905,167)</u>
Property, exhibits and equipment, net	<u>\$ 6,465,188</u>	<u>\$ 5,353,498</u>

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

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5. Property, Exhibits and Equipment (continued)

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

In 2013, the Organization recognized a retirement loss of \$41,000 on exhibits under construction that were capitalized in prior years that would not be placed into service (\$223,000 in 2012). In 2012, the Organization recognized a retirement loss for an exhibit in the amount of \$129,000 due to this exhibit being replaced.

6. Beneficial Interest in Use of Facility

In 1998, the Organization entered into a 55 year agreement with the City of San Jose to lease its primary facility for \$1 per year. The Organization 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>2013</u>	<u>2012</u>
Total benefit in interest in use of facility	\$ 56,862,000	\$ 58,266,000
Less discount at 6% to net present value	<u>(35,672,612)</u>	<u>(36,951,483)</u>
Net beneficial interest in use of facility	<u>\$ 21,189,388</u>	<u>\$ 21,314,517</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>2013</u>	<u>2012</u>
Rent expense	\$ 1,404,000	\$ 1,404,000
Amortization of discount	<u>(1,278,871)</u>	<u>(1,285,955)</u>
Net decrease in temporarily restricted net assets	<u>\$ 125,129</u>	<u>\$ 118,045</u>

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 7. Line of Credit

The Organization has an unsecured \$2,000,000 line of credit with a bank, which the bank has extended annually. The line of credit expires in January 2015. Borrowings under the agreement bear interest at the bank's prime rate (3.25% at June 30, 2013). The Organization did not borrow against the line of credit in 2013 or 2012.

#### 8. Lease Arrangements

##### *Leases:*

The Organization leases a facility in San Jose, California under a non-cancelable operating lease agreement, which expires in December 2018. The facility rent expense was \$47,000 in 2013 (\$47,000 in 2012). Future minimum lease payments under the non-cancelable lease agreements are as follows:

Years ending June 30:	
2014	\$ 52,000
2015	50,000
2016	52,000
2017	54,000
2018	55,000
Thereafter	<u>28,000</u>
	<u>\$ 291,000</u>

The Organization leases an IMAX projection and sound system under a non-cancelable lease through October 2013. The Organization prepaid the total rent expense to be incurred over the lease term, which is being amortized to rent expense. The lease also includes a maintenance agreement, which requires the Organization to incur a minimum amount of maintenance expense annually. The Organization prepaid the maintenance lease requirement, which is being amortized to occupancy expense over the lease term. The Organization is also subject to additional rent based on 7% of annual gross revenues earned from the theater over \$2,000,000 and 4% of annual gross revenues over \$3,000,000. The Organization did not incur any additional rent in 2013 or 2012. Total rent expense under the lease was \$124,000 in 2013 (\$113,000 in 2012). Total maintenance expense under the lease was \$115,000 in 2013 (\$100,000 in 2012).

As of June 30, 2013, the balance of the prepaid rent was \$42,000 (\$41,000 as of June 30, 2012). As of June 30, 2013 and 2012, there was no prepaid maintenance.

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

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8. Lease Arrangements (continued)

*Capital Lease:*

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

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

Years ending June 30,		
2014	\$	10,400
2015		<u>1,700</u>
Total lease payments		12,100
Less: amount representing interest		<u>(300)</u>
Capital lease obligation	\$	<u><u>11,800</u></u>

9. Employee Retirement Plans

*Defined Contribution Retirement Plan:*

The Organization has a defined contribution retirement plan for employees meeting certain employment service requirements. Eligible employees may elect to contribute to the plan and the Organization may make qualified non-elective discretionary contributions. The Organization did not make any contributions to the plan in 2013 or 2012.

In 1999, the Organization initiated a key employee option plan (the Option Plan) whereby selected employees entered into pre-tax compensation reduction option agreements with the Organization, concurrent with being awarded non-qualified options to purchase shares in a fund. The number of options granted was based on actual compensation reduction amounts assuming a 25% discount from fair value to be paid upon exercise of the options. The fund is comprised of two mutual funds and had a fair value of \$16,000 at June 30, 2013 (\$12,000 at June 30, 2012). The funds were created with monies contributed by the Organization and employees as specified in their respective compensation reduction agreements. In 1999, the Organization awarded options to four employees, all of which were exercisable. The Organization subsequently froze participation in the Option Plan. Accrued expenses at June 30, 2013 include \$12,000 associated with the Option Plan (\$9,000 at June 30, 2012).

**The Tech Museum of Innovation**  
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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>2013</u>	<u>2012</u>
Beneficial interest in use of facility (time restriction)	\$ 21,189,388	\$ 21,314,517
Special projects (time and purpose restrictions)	1,685,134	2,100,393
Operations (time and purpose restrictions)	4,017,784	1,748,504
Receivables (time and purpose restrictions)	13,150,549	14,905,327
Undesignated endowment income (time restriction)	<u>1,042,967</u>	<u>-</u>
	<u>\$ 41,085,822</u>	<u>\$ 40,068,741</u>

Permanently restricted net assets of \$12,715,706 at June 30, 2013 and 2012 consist of investments held in perpetuity and a pledge receivable.

11. Net Assets Released from Restrictions

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

	<u>2013</u>	<u>2012</u>
Beneficial interest in use of facility (time restriction)	\$ 125,129	\$ 118,045
Special projects (time and purpose restrictions)	791,264	1,088,830
Operations (time and purpose restrictions)	6,997,080	3,681,270
Designated endowment income (time restriction)	<u>605,396</u>	<u>363,892</u>
	<u>\$ 8,518,869</u>	<u>\$ 5,252,037</u>

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 12. Endowment

The Organization'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 Organization's Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. Once appropriated, these amounts are classified as unrestricted net assets.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Organization 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 Organization;
- (7) The Organization's investment policies.

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**Notes to Financial Statements**

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12. Endowment (continued)

Endowment net assets consist of the following at June 30, 2013:

	<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	-	1,042,967	-	1,042,967
	<u>\$ -</u>	<u>\$ 1,042,967</u>	<u>\$ 12,715,706</u>	<u>\$ 13,758,673</u>

Endowment net assets consist of the following at June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted Endowment Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,715,706</u>	<u>\$ 12,715,706</u>

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ -	\$ 12,715,706	\$ 12,715,706
Net Appreciation	-	1,648,363	-	1,648,363
Release from Restriction	-	(605,396)	-	(605,396)
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 1,042,967</u>	<u>\$ 12,715,706</u>	<u>\$ 13,758,673</u>

## The Tech Museum of Innovation

### Notes to Financial Statements

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#### 12. Endowment (continued)

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

It is the Organization's policy, subject to maximum distribution defined as 5% of the three-year moving average of the endowment fund assets, to determine the appropriate annual cash distribution from the fund to support its operations; however, in no event will the spending policy adopted result in the fair value of the endowment fund to be less than the amount the donor or SPMIFA require to be held in perpetuity.

At June 30, 2013, the fair value of endowment assets exceeded their cost by \$1,042,967 (were less than their cost by \$309,033 at June 30, 2012).

#### 13. Related Parties

The Organization'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 \$5,691,000 in 2013 (\$15,961,000 in 2012). Amounts due from the Board and affiliates are \$11,804,000 at June 30, 2013 (\$13,508,000 at June 30, 2012).

#### 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 Organization and available to be issued.