

THE TECH MUSEUM OF INNOVATION

Report to Finance Committee Members

December 31, 1996

April 30, 1997

Finance Committee Members
The Tech Museum of Innovation

Grant Thornton 
GRANT THORNTON LLP Accountants and
Management Consultants
The U.S. Member Firm of
Grant Thornton International

Ladies and Gentlemen:

Professional standards require that we advise you of the following matters relating to our recently concluded audit. The matters discussed herein are those that we have noted as of March 28, 1997, and we have not updated our procedures regarding these matters since that date to the current date.

Our Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated February 27, 1997, our responsibility, as prescribed by generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants ("AICPA") and *Government Auditing Standards* issued by the Comptroller General of the United States, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards and *Government Auditing Standards* does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors, irregularities (or illegal acts), or noncompliance with the provisions of laws, regulations, contracts and grants, if existing, have not been detected. Such standards require that we obtain a sufficient understanding of The Tech Museum of Innovation's ("The Tech") internal control structure to plan the audit. However, such understanding and any tests performed with respect to such internal controls, or as to compliance with laws, regulations, contracts and grants, were for the purpose of expressing our opinion on The Tech's financial statements and not to opine or provide any assurance concerning such internal control structure or compliance. We could, however, as a separate engagement, be engaged to perform agreed-upon procedures or examine and report on management's written assertion about the internal control structure or that management complied with specific laws and regulations. Such engagements would be conducted in accordance with AICPA standards for attestation engagements.

As required by Office of Management and Budget ("OMB") Circular A-133 *Audits of Higher Education and Other Nonprofit Institutions* pertaining to The Tech, we performed the following additional testing of internal controls and compliance to supplement our financial statement and audit procedures:

OMB Circular A-133

- Internal Controls

We performed tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to The Tech's major federal financial assistance program.

- General Requirements

We applied procedures to test The Tech's compliance with the general requirements governing political activity; civil rights; cash management; relocation assistance and real property acquisition; federal financial reports; allowable costs/cost principles; drug-free workplace; and administrative requirements applicable to its federal financial assistance program.

- Specific Requirements

We have tested The Tech's compliance with the specific requirements governing types of services allowed or not allowed; reporting; special tests and provisions; and claims for advances and reimbursements that are applicable to its major federal financial assistance program.

Although such tests supplement our financial statement audit procedures, they were performed solely to meet the specified requirements of the aforementioned laws, regulations and requirements and do not constitute an examination directed toward the expression of an opinion with respect to the internal control structure or compliance with such laws, regulations, contracts or grants. Accordingly, no such opinion was expressed.

Management Judgments and Accounting Estimates

Accounting estimates, based upon management's judgments, are an integral part of an entity's financial statements. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The Tech's allowance for doubtful contributed support receivables of \$457,772 is a particularly significant estimate. The determination of the balance in the allowance for doubtful contributed support receivables is based on an analysis of the receivables and reflects an amount which, in management's judgment, is adequate to provide for potential losses after giving consideration to the character of the receivables, current economic conditions, past collection experience and such other factors that deserve current recognition in estimating losses.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The definition includes adjustments that were not recorded by The Tech because they are not material to the current financial statements but might be potentially material to future financial statements.

During our audit, adjustments totaling \$21,568,535 impacted change in net assets. These adjustments were related primarily to the recording of the receivables in accordance with the Statement of Financial Accounting Standards No. 116, the reclassification of accounts in accordance with the Statement of Financial Accounting Standards No. 117, and the recording of contributed rent receivable in accordance with the *1996 AICPA Audit and Accounting Guide for Not-For-Profit Organizations*.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter which could be significant to The Tech's financial statements or the audit report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Accountants

Management has informed us they have not consulted with other accountants during the year.

Difficulties Encountered in Performing the Audit

We are pleased to report that we encountered no difficulties in performing the audit.

Initial Adoption of Accounting Policy

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

Should you desire further information concerning our these matters, we will be happy to meet with you at your convenience.

This letter is solely for the internal use of the Finance Committee, Board of Directors and management of The Tech Museum of Innovation and should not be distributed to any other persons or used for any other purpose.

Very truly yours,

Grant Thornton LLP

THE TECH MUSEUM OF INNOVATION

Client Advisory Comments

December 31, 1996

150 Almaden Boulevard
P.O. Box 6779
San Jose, CA 95150-6779
408 275-9000
FAX 408 275-0582

April 30, 1997

Grant Thornton 
GRANT THORNTON LLP Accountants and
Management Consultants
The U.S. Member Firm of
Grant Thornton International

To the Board of Directors
The Tech Museum of Innovation

In connection with our audit of the financial statements of The Tech Museum of Innovation as of December 31, 1996, we noted certain matters that we believe you should consider. Our observations were formed as a by-product of our audit procedures, which did not include a comprehensive review for the purpose of submitting detailed recommendations.

The accompanying comments summarize our comments and suggestions.

The matters discussed herein are those that we have noted as of March 28, 1997, and we have not updated our procedures regarding these matters since that date to the current date.

We have previously discussed our comments and suggestions with various Organization personnel and would be pleased to discuss them further.

Very truly yours,

Grant Thornton LLP

The Tech Museum Of Innovation

CLIENT ADVISORY COMMENTS

December 31, 1996

Restricted Vs. Unrestricted Activity

In 1995, The Tech adopted Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-For-Profit Organizations*. SFAS No. 117 established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. While the conversion to SFAS No. 117 has been reflected in the annual audited financial statements, The Tech's internal financial statements and general ledger structure have not been completely converted to the new format.

We recommend that certain revisions be made to the internal monthly financial statements and general ledger so they reflect all the changes mandated by SFAS No. 117. Because The Tech does record general ledger activity by fund, much of the segregation of unrestricted and restricted activity has already taken place. We would like to suggest that this distinguishment be refined to comply with SFAS No. 117. Specifically, investment earnings and National Science Foundation grants should be reclassified as unrestricted activity. Additionally, any receipts of restricted monies should be coded into the temporarily restricted category instead of unrestricted. These modifications will ensure accurate interim financial reporting and will facilitate the year end audit and financial statement presentation.

Contributions Receivable

The Tech also adopted SFAS No. 116, *Accounting For Contributions Received and Made*, in 1995. SFAS No. 116 requires that unconditional promises to give be recorded as receivables and revenue and requires organizations to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Again, the conversion to this new accounting standard has been reflected in the annual audited financial statements but not in the monthly internal financial statements or general ledger. In these internal documents, contribution revenue is recorded on a cash basis instead of in the period the promise (pledge) was actually made.

We recommend The Tech make a full conversion to SFAS No. 116 for internal reporting purposes. Cash received on outstanding pledges should be recorded as a reduction of a receivable instead of additional donated revenue. Furthermore, care should be taken to record activity (new donations or receipts of pledges) in the proper net asset category (i.e., unrestricted, temporarily restricted or permanently restricted). Finally, once recorded, these receivables should be tracked in groups, by the year of the original pledge, so that the process to discount receivables to present value is simplified at year end.

The Tech Museum Of Innovation
CLIENT ADVISORY COMMENTS (continued)

December 31, 1996

Conflict of Interest Statements

The Tech does not request signed conflict of interest statements from its Board of Directors, or staff.

The Internal Revenue Service is placing increased scrutiny on exempt organizations with respect to transactions between the organizations, their Board Members and even significant members of staff. For this reason we recommend The Tech have each Board member, and significant staff members, sign a conflict of interest statement, which will define appropriate and inappropriate transactions and spell out procedures and approvals necessary whenever transactions do take place. This will help avoid the appearance of impropriety on the part of The Tech, or its Board members or staff.

Vacation Tracking

The Tech's employees are not consistently submitting a "leave of absence" form when taking paid time off, thus making it difficult for the finance department to track vacation accruals.

We recommend The Tech modify the vacation policy to include a provision that employees will submit a "leave of absence" form to the Human Resource department when requesting time off. This will formalize the process, encourage employees to comply and enable The Tech to maintain accurate records for vacation, and other personal time off.

Inventory

The Tech did not take a physical inventory count of merchandise in the gift shop, or count inventory held off-site at or near the end of the fiscal year.

We recommend that The Tech take a physical inventory at or near the end of each fiscal year. Included in this count should be any goods held off-site. This count will confirm the existence of merchandise recorded on the general ledger and will give The Tech timely knowledge of any shortages.