



**THE TECH MUSEUM OF INNOVATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 1993 AND 1992**

*Price Waterhouse*



**REPORT OF INDEPENDENT ACCOUNTANTS**

April 8, 1994

To the Board of Directors of  
The Tech Museum of Innovation

In our opinion, the accompanying balance sheets and the related statements of support and revenue, expenses and changes in fund balances and of cash flows present fairly, in all material respects, the financial position of the Tech Museum of Innovation at December 31, 1993 and 1992, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Museum's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*Price Waterhouse*

**THE TECH. MUSEUM OF INNOVATION**

**BALANCE SHEETS**

	December 31, 1993				December 31, 1992					
	Operating Fund	Permanent Facility Funds Unrestricted	Permanent Facility Funds Restricted	Capital Fund	Total	Operating Fund	Permanent Facility Funds Unrestricted	Permanent Facility Funds Restricted	Capital Fund	Total
<b>ASSETS</b>										
Current assets:										
Cash and cash equivalents	\$ 36,000	\$ 22,000	\$ 289,000	\$ -	\$ 347,000	\$ 81,000	\$ 126,000	\$ 59,000	\$ -	\$ 266,000
Receivable from the sale of short-term investments	-	270,000	-	-	270,000	-	-	-	-	-
Short-term investments	-	131,000	-	-	131,000	-	-	-	-	-
Grants receivable, prepaids and other	21,000	115,000	2,000	20,000	158,000	72,000	8,000	31,000	-	111,000
Inventory	30,000	-	-	-	30,000	25,000	-	-	-	25,000
Total current assets	<u>87,000</u>	<u>538,000</u>	<u>291,000</u>	<u>20,000</u>	<u>936,000</u>	<u>178,000</u>	<u>134,000</u>	<u>90,000</u>	<u>-</u>	<u>402,000</u>
Property and equipment:										
Exhibits and furnishings	-	-	-	6,581,000	6,581,000	-	-	-	6,581,000	6,581,000
Furniture, fixtures and equipment	-	-	-	392,000	392,000	-	-	-	337,000	337,000
Leasehold improvements	-	-	-	1,950,000	1,950,000	-	-	-	1,943,000	1,943,000
Less accumulated depreciation	-	-	-	(5,908,000)	(5,908,000)	-	-	-	(4,039,000)	(4,039,000)
	-	-	-	3,015,000	3,015,000	-	-	-	4,822,000	4,822,000
Construction-in-progress	6,000	65,000	137,000	-	208,000	-	65,000	137,000	-	202,000
Other assets	-	-	30,000	-	30,000	-	20,000	-	20,000	40,000
	<u>\$ 93,000</u>	<u>\$ 603,000</u>	<u>\$ 458,000</u>	<u>\$ 3,035,000</u>	<u>\$ 4,189,000</u>	<u>\$ 178,000</u>	<u>\$ 219,000</u>	<u>\$ 227,000</u>	<u>\$ 4,842,000</u>	<u>\$ 5,466,000</u>
<b>LIABILITIES AND FUND BALANCES</b>										
Current liabilities:										
Accounts payable and accrued expenses	\$ 62,000	\$ 54,000	\$ 6,000	\$ -	\$ 122,000	\$ 68,000	\$ 60,000	\$ 14,000	\$ -	\$ 142,000
Deferred restricted contributions	88,000	-	725,000	-	813,000	75,000	-	314,000	-	389,000
Total current liabilities	150,000	54,000	731,000	-	935,000	143,000	60,000	328,000	-	531,000
Net interfund (receivable)/payable (Note 4)	536,000	974,000	(467,000)	(1,043,000)	-	614,000	705,000	(296,000)	(1,023,000)	-
Fund balances	(593,000)	(425,000)	194,000	4,078,000	3,254,000	(579,000)	(546,000)	195,000	5,865,000	4,935,000
	<u>\$ 93,000</u>	<u>\$ 603,000</u>	<u>\$ 458,000</u>	<u>\$ 3,035,000</u>	<u>\$ 4,189,000</u>	<u>\$ 178,000</u>	<u>\$ 219,000</u>	<u>\$ 227,000</u>	<u>\$ 4,842,000</u>	<u>\$ 5,466,000</u>

The accompanying notes are an integral part of these financial statements.

**THE TECH MUSEUM OF INNOVATION**

**STATEMENTS OF SUPPORT AND REVENUE, EXPENSES AND CHANGES IN FUND BALANCES**

	Year ended December 31, 1993			Year ended December 31, 1992			
	Operating Fund	Permanent Facility Funds Unrestricted	Capital Fund	Operating Fund	Permanent Facility Funds Unrestricted	Capital Fund	Total
<b>Support and revenue:</b>							
Contributions	\$846,000	\$448,000	\$ 22,000	\$ 927,000	\$ 239,000	\$ 2,000	\$1,868,000
Donated property, services and rent	259,000	65,000	17,000	265,000	136,000	222,000	623,000
Federal awards	227,000	-	-	167,000	-	-	167,000
Admissions and fees	533,000	-	-	721,000	-	-	721,000
Store revenue	139,000	-	-	131,000	-	-	131,000
Other income	53,000	14,000	-	67,000	37,000	-	104,000
<b>Total support and revenue</b>	<b>2,057,000</b>	<b>527,000</b>	<b>39,000</b>	<b>2,211,000</b>	<b>412,000</b>	<b>224,000</b>	<b>3,547,000</b>
<b>Expenses:</b>							
Exhibits and programs	1,010,000	79,000	1,869,000	1,512,000	107,000	1,859,000	4,014,000
Development and public relations	882,000	162,000	-	675,000	107,000	-	832,000
Administration	139,000	165,000	1,000	176,000	123,000	-	350,000
<b>Total expenses</b>	<b>2,031,000</b>	<b>406,000</b>	<b>1,870,000</b>	<b>2,363,000</b>	<b>337,000</b>	<b>1,859,000</b>	<b>5,196,000</b>
<b>Excess (deficiency) of support and revenue over expenses</b>	<b>26,000</b>	<b>121,000</b>	<b>(1,831,000)</b>	<b>(152,000)</b>	<b>75,000</b>	<b>(1,635,000)</b>	<b>(1,649,000)</b>
Beginning fund balances	(579,000)	(546,000)	5,865,000	5,985,000	(612,000)	1,070,000	6,584,000
Add (deduct) interfund transfers (Note 4)	(40,000)	-	44,000	(6,412,000)	(9,000)	6,430,000	-
<b>Ending fund balance</b>	<b>\$(593,000)</b>	<b>\$(425,000)</b>	<b>\$4,078,000</b>	<b>\$(579,000)</b>	<b>\$(546,000)</b>	<b>\$5,865,000</b>	<b>\$4,935,000</b>

The accompanying notes are an integral part of these financial statements.

**THE TECH MUSEUM OF INNOVATION**

**STATEMENTS OF CASH FLOWS**

	<u>Year ended December 31,</u>	
	<u>1993</u>	<u>1992</u>
Cash flows from operating activities:		
Deficiency of support and revenue over expenses	\$(1,681,000)	\$(1,649,000)
Adjustments to reconcile deficiency of support and revenue over expenses to net cash provided by (used in) operating activities:		
Depreciation	1,869,000	1,859,000
Donated equipment	(52,000)	(148,000)
Changes in assets and liabilities:		
Receivable from the sale of short-term investments	(270,000)	-
Short-term investments	(131,000)	-
Grants receivable, prepaids and other	(47,000)	(40,000)
Inventory	(5,000)	20,000
Other assets	10,000	-
Accounts payable and accrued expenses	(20,000)	(6,000)
Deferred restricted contributions	<u>424,000</u>	<u>(145,000)</u>
Net cash provided by (used in) operating activities	97,000	(109,000)
Cash flows used in investing activities for additions to property and equipment	<u>(16,000)</u>	<u>(13,000)</u>
Net increase in cash and cash equivalents	81,000	(122,000)
Cash and cash equivalents, beginning of year	<u>266,000</u>	<u>388,000</u>
Cash and cash equivalents, end of year	<u>\$ 347,000</u>	<u>\$ 266,000</u>

The accompanying notes are an integral part  
of these financial statements.

## **THE TECH MUSEUM OF INNOVATION**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 - THE MUSEUM AND ITS SIGNIFICANT ACCOUNTING POLICIES:**

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

The Tech has entered into an agreement with the City of San Jose for the lease of certain building space for a nominal fee. The building space will house the Tech's temporary science museum until the permanent facility is completed. The Tech commenced operations at the temporary facility in the fall of 1990.

#### **Fund accounting**

The accounts of the Tech have been prepared on an accrual basis and in accordance with the principles of fund accounting to ensure observance of limitations and restrictions placed on the use of certain resources available to the Tech. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. The assets, liabilities and fund balances of the Tech are reported in four self-balancing fund groups as follows:

#### **Operating Fund**

The individual funds grouped in the Operating Fund for financial statement presentation are the Tech Fund, Store Fund, and the Endowment Fund.

#### **Tech Fund**

The Tech Fund consists primarily of expenses incurred in the operation of the Tech as well as revenues earned in admissions and fees and contributions received to support the general operations of The Tech. The Tech Fund balance was \$(575,000) and \$(544,000) at December 31, 1993 and 1992, respectively.

#### **Store Fund**

Funds received and expended relating to the operations of the retail store within the Tech are recorded in the Store Fund. The Store Fund balance was \$(53,000) and \$(35,000) at December 31, 1993 and 1992, respectively.

#### **Endowment Fund**

Endowment funds received from a private foundation in 1993 are recorded in the Endowment Fund. The Tech may not expend the endowment principal, however, any income derived from the investment of such funds may be used to support the Tech's educational programs. The Endowment Fund balance was \$35,000 and \$0 at December 31, 1993 and 1992, respectively.

### Unrestricted and Restricted Permanent Facility Funds

The San Jose Redevelopment Agency (SJRDA) Fund has been grouped in the Restricted Permanent Facility Fund for financial statement presentation.

#### **Unrestricted and Restricted Permanent Facility Funds**

The Unrestricted and Restricted Permanent Facility Funds represent the portion of expendable funds that are available for support of the Tech's development of a permanent building facility and exhibits. Permanent Facility funds restricted by the donor for particular purposes are deemed to be earned and reported as revenues of the respective Permanent Facility Fund when the Tech has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as deferred restricted contributions. The Unrestricted Permanent Facility Fund balance was \$(425,000) and \$(546,000) at December 31, 1993 and 1992, respectively. The Restricted Permanent Facility Fund balance was \$195,000 and \$195,300 at December 31, 1993 and 1992, respectively.

#### **SJRDA Fund**

In January 1988, the Tech finalized an agreement (the Agreement) with the SJRDA regarding the construction of the permanent facility. In accordance with the Agreement, the SJRDA will construct the permanent facility and lease it to the Tech for a nominal fee. The Agreement also provides that the SJRDA will contribute funds to the Tech for the purpose of site preparation and building design related to the construction of the permanent facility. Such funds received are recorded in the SJRDA Fund. When the funds are expended, equal amounts of revenue and expense are recognized in the Restricted Permanent Facility Fund. The SJRDA has cumulatively advanced \$1,495,000 to the Tech, of which \$400,000 was received and recorded as contributions during the year ended December 31, 1993. In addition, the Tech has incurred \$85,000 of unreimbursed qualified expenditures during the year ended December 31, 1993 for which the Tech has recorded a receivable from the SJRDA at December 31, 1993. The SJRDA Fund balance was \$(1,000) and \$(300) at December 31, 1993 and 1992, respectively.

### Capital Fund

The individual funds grouped in the Capital Fund for financial statement presentation are the Capital Equipment Fund and the San Jose Citizen's Committee (SJCC) Fund.

#### **Capital Equipment Fund**

Donations of property and equipment for use in the Tech's public programs are recorded in the Capital Equipment Fund. Additionally, funds expended for property and equipment used by the Tech in administering its operations are recorded in the Capital Equipment Fund. The Capital Equipment Fund balance was \$3,015,000 and \$4,822,000 at December 31, 1993 and 1992, respectively.

### **SJCC Fund**

In January 1988, the Tech finalized an agreement with the SJCC regarding a joint fund-raising campaign, which has been in progress since 1984, the goal of which is to obtain donations totalling \$10,000,000 to be applied to the development of the permanent facility. Currently, all proceeds received as a result of the fund-raising effort are being accumulated in the SJCC Fund. At the time of ground breaking, all contributions credited, net of expenses, if any, to the SJCC Fund will be transferred to the SJRDA under a separate agreement. The SJCC Fund balance was \$1,063,000 and \$1,043,000 at December 31, 1993 and 1992, respectively.

### **Cash equivalents**

The Tech considers all amounts deposited in interest bearing checking accounts to be cash equivalents.

### **Short-term investments**

Short-term investments consist primarily of corporate stocks. Investments are carried at the lower of cost or market. For contributed investments, cost is determined by the market value at the date of donation.

### **Inventory**

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

### **Property and equipment**

Property and equipment are stated at cost for assets acquired and at estimated fair value for assets contributed. Depreciation is computed by the straight-line method over the estimated useful lives of the assets which range from 4-5 years. Leasehold improvements are amortized by the straight-line method over the shorter of the estimated useful lives of the assets or the term of the related lease.

### **Construction-in-progress**

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

### **Federal awards**

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



**Donated property, services and rent**

The Tech includes the estimated fair value of certain donated services, equipment and facility space as both support and expense in the periods that the benefit of such services, equipment and facility space are realized. Equipment donated with specific provisions for its use is recognized as support and expense over the shorter of the restriction period or the estimated useful life of the equipment.

**Pledges, contributions and grants**

Legally enforceable pledges less an allowance for uncollectible amounts are recorded as pledges in the year made. Pledges for support of current operations are recorded in the Operating Fund as support. Pledges for support of future operations, development of the permanent facility, and plant acquisitions are recorded as deferred amounts in the respective funds to which they apply.

In June 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 116 (FAS 116), "Accounting for Contributions Received and Contributions Made" and No. 117 (FAS 117), "Financial Statements of Not-for-Profit Organizations." FAS 116 and FAS 117 will change how pledges, contributions and grants (contributions) are recorded and disclosed in the financial statements. Currently, conditional contributions are recorded as Deferred Restricted Contributions in the balance sheets until the condition is removed. At December 31, 1993, \$813,000 is recorded as Deferred Restricted Contributions. Under FAS 116 and FAS 117 this amount and future conditional contributions will be immediately recorded as Temporarily Restricted Support in the Statements of Support and Revenue, Expenses and Changes in Fund Balances, of the appropriate fund, when the contribution is made, with a corresponding increase in a Temporarily Restricted Fund Balance. As terms of the contribution are met, corresponding amounts will be transferred from the Temporarily Restricted Fund Balance to the Unrestricted Fund Balance. The Tech will adopt FAS 116 and FAS 117 in fiscal year 1995.

**Reclassifications**

Certain 1992 amounts in the accompanying financial statements have been reclassified to conform with the 1993 presentation.

**NOTE 2 - SHORT-TERM INVESTMENTS:**

Short-term investments of \$131,000 are presented at cost, which equaled the market value of such investments at December 31, 1993. The Tech held no investments at December 31, 1992. Income derived on investments was nominal for the years ended December 31, 1993 and 1992, respectively.

**NOTE 3 - RELATED PARTY TRANSACTIONS:**

For the years ended December 31, 1993 and 1992, the Tech received cash contributions and equipment donations amounting to \$2,701,000 and \$1,423,000, respectively, from members of the Board of Directors of the Tech or companies with which the Directors are affiliated.

**NOTE 4 - INTERFUND BORROWINGS AND TRANSFERS:**

The Tech's agreement with the SJCC provides that funds credited to the SJCC Fund may be borrowed by the Unrestricted Permanent Facility Fund for the payment of certain expenses incurred by the Tech. All funds borrowed, which are interest free, must be repaid to the SJCC Fund prior to commencing construction of the permanent facility. At December 31, 1993, \$1,043,000 was borrowed under this agreement.

At December 31, 1993, the Operating interfund payable consists of net loans from the Unrestricted Permanent Facility Fund to the Tech Fund and the Store Fund of \$460,000 and \$76,000, respectively, for use in funding the Tech's operations. The Unrestricted Permanent Facility Fund interfund payable consists of loans from the Restricted Permanent Facility Fund and the SJCC Fund of \$467,000 and \$1,043,000, respectively, reduced by the receivable from the Operating Fund of \$536,000.

Interfund transfers for the year ended December 31, 1993 consist of transfers of property and equipment at cost, less accumulated depreciation, from the Tech Fund and the Restricted Permanent Facility Fund totalling \$40,000 and \$4,000, respectively, to the Capital Equipment Fund.

**NOTE 5 - PLEDGES:**

The Tech has outstanding pledges of \$4,466,000 at December 31, 1993. These pledges are not considered legally enforceable and therefore have not been recorded in the financial statements. Collectibility of \$500,000 of the balance is contingent upon the receipt of an irrevocable funding commitment of \$20,000,000 from the City of San Jose. Collectibility of the remaining balance is not contingent upon future events. The pledges have been designated for use in the development of the permanent site and related exhibits.

**NOTE 6 - INCOME TAXES:**

Pursuant to an IRS ruling under Internal Revenue Code Section 501(c)(3) and comparable California statutes, the Tech is a tax-exempt non-profit publicly supported benefit corporation. As such, the Tech's income is not subject to tax, except for income from unrelated business activities. The provision for tax on unrelated business income is nominal.