THE TECH MUSEUM OF INNOVATION

Financial Statements and
Reports of Independent Certified Public Accountants
Required by OMB Circular A-133

December 31, 1998 and 1997
Report of Independent Certified Public Accountants

Board of Directors
The Tech Museum of Innovation

We have audited the accompanying statements of financial position of The Tech Museum of Innovation (the "Organization") (a California nonprofit corporation) as of December 31, 1998 and 1997, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 1998 and 1997, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated April 16, 1999 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

San Jose, California
April 16, 1999

Grant Thornton LLP
The Tech Museum of Innovation

STATEMENTS OF FINANCIAL POSITION

December 31,

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th></th>
<th>1997</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Temporarily Restricted</td>
<td>Permanently Restricted</td>
<td>Total</td>
</tr>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$ 8,071</td>
<td>$ 5,291,756</td>
<td>$ 100,000</td>
<td>$ 5,399,827</td>
</tr>
<tr>
<td>Receivable from the sale of investments</td>
<td>-</td>
<td>228,274</td>
<td>-</td>
<td>228,274</td>
</tr>
<tr>
<td>Investments</td>
<td>2,000,000</td>
<td>730,373</td>
<td>-</td>
<td>2,730,373</td>
</tr>
<tr>
<td>Contributed support receivable, net</td>
<td>-</td>
<td>3,791,711</td>
<td>-</td>
<td>3,791,711</td>
</tr>
<tr>
<td>Public support receivable, net</td>
<td>158,888</td>
<td>-</td>
<td>158,888</td>
<td>-</td>
</tr>
<tr>
<td>Receivable for contributed use of facility, net</td>
<td>-</td>
<td>22,216,722</td>
<td>-</td>
<td>22,216,722</td>
</tr>
<tr>
<td>Grants receivable, net</td>
<td>98,991</td>
<td>-</td>
<td>98,991</td>
<td>-</td>
</tr>
<tr>
<td>Other receivable</td>
<td>109,424</td>
<td>30,394</td>
<td>-</td>
<td>139,818</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>2,139,313</td>
<td>20,661</td>
<td>-</td>
<td>2,159,974</td>
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<tr>
<td>Inventory</td>
<td>148,302</td>
<td>-</td>
<td>148,302</td>
<td>-</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>30,004,020</td>
<td>-</td>
<td>30,004,020</td>
<td>-</td>
</tr>
<tr>
<td>Beneficial interest in trust</td>
<td></td>
<td>-</td>
<td>-</td>
<td>100,608</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$ 34,667,009</strong></td>
<td><strong>$ 32,309,891</strong></td>
<td><strong>$ 200,608</strong></td>
<td><strong>$ 67,177,508</strong></td>
</tr>
</tbody>
</table>

LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th></th>
<th>1997</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Temporarily Restricted</td>
<td>Permanently Restricted</td>
<td>Total</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$ 3,256,559</td>
<td>$ 597,385</td>
<td>-</td>
<td>$ 3,853,944</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>175,618</td>
<td>-</td>
<td>175,618</td>
<td>-</td>
</tr>
<tr>
<td>Note payable</td>
<td>700,000</td>
<td>-</td>
<td>700,000</td>
<td>-</td>
</tr>
<tr>
<td>Payable (receivable) between net asset categories</td>
<td>($3,969,434)</td>
<td>$3,968,826</td>
<td>608</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>162,743</strong></td>
<td><strong>4,566,211</strong></td>
<td><strong>608</strong></td>
<td><strong>4,729,562</strong></td>
</tr>
</tbody>
</table>

Net assets

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th></th>
<th>1997</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Temporarily Restricted</td>
<td>Permanently Restricted</td>
<td>Total</td>
</tr>
<tr>
<td>Undesignated</td>
<td>4,500,246</td>
<td>-</td>
<td>4,500,246</td>
<td>-</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>30,004,020</td>
<td>-</td>
<td>30,004,020</td>
<td>-</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>-</td>
<td>200,000</td>
<td>200,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>34,504,266</strong></td>
<td><strong>27,743,680</strong></td>
<td><strong>200,000</strong></td>
<td><strong>62,447,960</strong></td>
</tr>
<tr>
<td><strong>$ 34,667,009</strong></td>
<td><strong>$ 32,309,891</strong></td>
<td><strong>$ 200,608</strong></td>
<td><strong>$ 67,177,508</strong></td>
<td><strong>$ 5,883,335</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
The Tech Museum of Innovation

STATEMENTS OF ACTIVITIES

Years ended December 31,

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th></th>
<th>1997</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Temporarily Restricted</td>
<td>Permanently Restricted</td>
<td>Total</td>
</tr>
<tr>
<td>Support and revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public support</td>
<td>$392,222</td>
<td>$14,563</td>
<td>-</td>
<td>$406,785</td>
</tr>
<tr>
<td>Contributed support and special events, net of allowance and net present value adjustment</td>
<td>3,413,315</td>
<td>7,876,196</td>
<td>100,000</td>
<td>11,389,511</td>
</tr>
<tr>
<td>Donated property and services</td>
<td>609,027</td>
<td>14,212,570</td>
<td>-</td>
<td>14,821,597</td>
</tr>
<tr>
<td>Admissions and fees</td>
<td>2,090,151</td>
<td>-</td>
<td>-</td>
<td>2,090,151</td>
</tr>
<tr>
<td>Store revenue</td>
<td>519,137</td>
<td>-</td>
<td>-</td>
<td>519,137</td>
</tr>
<tr>
<td>Federal awards</td>
<td>376,101</td>
<td>-</td>
<td>-</td>
<td>376,101</td>
</tr>
<tr>
<td>Interest income</td>
<td>560,159</td>
<td>14,790</td>
<td>-</td>
<td>574,949</td>
</tr>
<tr>
<td>Investment realized gain (loss)</td>
<td>(111,512)</td>
<td>-</td>
<td>-</td>
<td>(111,512)</td>
</tr>
<tr>
<td>Other income</td>
<td>7,729</td>
<td>-</td>
<td>-</td>
<td>7,729</td>
</tr>
<tr>
<td>Net assets released from restriction</td>
<td>35,330,956</td>
<td>(35,330,956)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total support and revenue</td>
<td>43,187,285</td>
<td>(13,212,837)</td>
<td>100,000</td>
<td>30,074,448</td>
</tr>
</tbody>
</table>

Expenses:

<table>
<thead>
<tr>
<th>Program services</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Museum project</td>
<td>456,883</td>
<td>351,823</td>
</tr>
<tr>
<td>Exhibits, programs, and experiences</td>
<td>5,179,606</td>
<td>2,854,591</td>
</tr>
<tr>
<td>Visitor services</td>
<td>1,252,274</td>
<td>314,893</td>
</tr>
<tr>
<td>Education</td>
<td>906,536</td>
<td>449,197</td>
</tr>
<tr>
<td>Supporting services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development, public relations and special events</td>
<td>5,734,243</td>
<td>2,269,986</td>
</tr>
<tr>
<td>Management and general</td>
<td>1,611,815</td>
<td>919,391</td>
</tr>
<tr>
<td>Total expenses</td>
<td>15,141,357</td>
<td>7,159,883</td>
</tr>
</tbody>
</table>

Change in net assets:

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets at beginning of year</td>
<td>$34,504,766</td>
<td>$62,447,946</td>
</tr>
<tr>
<td>Net assets at end of year</td>
<td>$37,743,680</td>
<td>$60,000</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
The Tech Museum of Innovation

STATEMENTS OF CASH FLOWS

Years ended December 31,

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$14,933,091</td>
<td>$8,103,925</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,156,093</td>
<td>150,876</td>
</tr>
<tr>
<td>Adjustment to estimated uncollectible contributed support</td>
<td>(140,445)</td>
<td>89,092</td>
</tr>
<tr>
<td>Present value adjustment, net</td>
<td>1,246,505</td>
<td>(1,040,269)</td>
</tr>
<tr>
<td>Donated equipment</td>
<td>(14,000,000)</td>
<td>(1,588,000)</td>
</tr>
<tr>
<td>Donated investments</td>
<td>(3,355,000)</td>
<td>512,000</td>
</tr>
<tr>
<td>Contributions restricted for long-term investment</td>
<td>(7,890,759)</td>
<td>(7,947,066)</td>
</tr>
<tr>
<td>Contributions restricted for investment in endowment</td>
<td>(100,000)</td>
<td>-</td>
</tr>
<tr>
<td>Realized loss/(gain)</td>
<td>111,512</td>
<td>(1,577)</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support receivables</td>
<td>3,362,695</td>
<td>(1,515,880)</td>
</tr>
<tr>
<td>Grants receivable and inventory</td>
<td>(140,229)</td>
<td>79,001</td>
</tr>
<tr>
<td>Prepaids and other</td>
<td>(1,386,361)</td>
<td>6,730</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>3,403,056</td>
<td>261,867</td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td>(2,799,842)</td>
<td>(4,074,303)</td>
</tr>
</tbody>
</table>

| **Cash flows from investing activities:** |          |          |
| Purchases of property, equipment and construction-in-progress | (12,644,222) | (1,649,366) |
| Purchases of investments               | (6,273,128) | (11,203,057) |
| Proceeds from sales of investments     | 17,921,536 | 8,812,386 |
| Net cash used in investing activities  | (995,814)  | (4,040,037) |

| **Cash flows from financing activities:** |          |          |
| Contributions restricted for long-term investment | 7,890,759 | 7,947,066 |
| Contributions restricted for investment in endowment | 100,000 | -        |
| Proceeds from note payable             | 700,000   | -        |
| Net cash provided by financing activities | 8,690,759 | 7,947,066 |

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4,895,103</td>
<td>(167,274)</td>
</tr>
</tbody>
</table>

**Cash and cash equivalents, beginning of year**

<table>
<thead>
<tr>
<th></th>
<th>504,724</th>
<th>671,998</th>
</tr>
</thead>
</table>

**Cash and cash equivalents, end of year**

<table>
<thead>
<tr>
<th></th>
<th>$5,399,827</th>
<th>$504,724</th>
</tr>
</thead>
</table>

See accompanying notes to financial statements.
NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Operations

The Tech Museum of Innovation (the "Tech") was incorporated on January 11, 1983 as a nonprofit public benefit corporation. The purpose of the Tech is to administer the financing, construction and operation of a world-class technology science museum. Aiming to inspire the innovator in everyone, The Tech Museum of Innovation is an educational resource established to engage people of all ages and backgrounds.

The Tech has entered into an agreement with the City of San Jose (the "City") for the lease of its primary facility. The Tech’s support and revenue comes primarily through contributions, federal awards, admissions and fees, and store revenue.

2. Categories of Net Assets

The net assets of the Tech are reported in the following categories:

- *Unrestricted net assets* generally have no donor-imposed restrictions. This category includes those revenues and expenses associated with program and supporting services.

- *Temporarily restricted net assets* include gifts for which donor-imposed restrictions have not been met and funds for which the ultimate purpose of the proceeds is not permanently restricted.

- *Permanently restricted net assets* includes a gift which requires, by donor-imposed restriction, that the corpus be invested in perpetuity and only the income be made available for the Tech’s education program.

3. Revenue Recognition

Membership dues are generally for the one-year period effective as of the month a member joins the Tech. Membership dues are deferred upon receipt and recognized as revenue ratably over the membership period.

4. Contributed Support

The Tech recognizes all unconditional gifts and promises to give in the period notified. Contributed support is reported as unrestricted, temporarily restricted or permanently restricted depending on the existence of donor stipulations that limit the use of the support.

5. Functional Classification of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated, principally on a direct cost basis, among the classifications.
NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Investments

Investments consist primarily of U.S. Treasury Bills and corporate stocks. Investments are carried at fair value as determined by quoted market prices.

7. Inventory

Inventory consists principally of merchandise (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.

8. Property and Equipment

Property and equipment are stated at cost for purchased assets and at estimated fair value for contributed assets. Depreciation is computed by the straight-line method over the estimated useful lives of the assets which range 3 - 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.

9. Construction-In-Progress

Construction-in-progress is stated at cost and represents exhibit projects and leasehold improvements under construction.

10. Donated Property, Services and Use of Facility

The Tech records various types of in kind support including professional services and 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 are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in kind support are offset by like amounts included in expenses. Additionally, the Tech receives a significant amount of contributed time which does not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

11. Tax Exempt Status

The Tech has been granted exempt status by the Internal Revenue Service and Franchise Tax Board under Sections 501(c)(3) and 23701(d), respectively.
The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1998 and 1997

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Tech's allowance for estimated uncollectible contributed support receivables of $406,419 and $546,865, at December 31, 1998 and 1997, respectively are particularly significant estimates. The determination of the balance in this account 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.

13. Expiration of Donor-Imposed Restrictions

Donor-restricted contributions are booked in the temporarily or permanently restricted categories of net assets. The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Long-lived assets acquired with gifts of cash restricted for those acquisitions are reported as unrestricted based on the Tech's policy of lifting restrictions on contributions of cash used for the acquisition of long-lived assets when the long-lived assets begin construction or are acquired.

14. 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.

Federal awards are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is believed that any required reimbursement would not be material.
The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1998 and 1997

NOTE B - INVESTMENTS AND BENEFICIAL INTEREST IN TRUST

Information relative to investments and the beneficial interest in trust, is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest</td>
<td>Realized</td>
<td>(Losses)</td>
<td>Fair</td>
</tr>
<tr>
<td>U.S. Government Securities</td>
<td>$ 482,411</td>
<td>$ -</td>
<td>$ 2,553,694</td>
<td></td>
</tr>
<tr>
<td>Equity Securities</td>
<td>6,036</td>
<td>(111,512)</td>
<td>176,679</td>
<td></td>
</tr>
<tr>
<td>Beneficial Interest in Trust</td>
<td>14,790</td>
<td>-</td>
<td>100,608</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>71,712</td>
<td>(111,512)</td>
<td>5,399,827</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 574,949</td>
<td>$ (111,512)</td>
<td>$ 8,230,808</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest</td>
<td>Realized</td>
<td>Gains</td>
<td>Fair</td>
</tr>
<tr>
<td>U.S. Government Securities</td>
<td>$ 453,720</td>
<td>$ -</td>
<td>$ 10,960,106</td>
<td></td>
</tr>
<tr>
<td>Equity Securities</td>
<td>3,150</td>
<td>1,577</td>
<td>90,084</td>
<td></td>
</tr>
<tr>
<td>Beneficial Interest in Trust</td>
<td>20,213</td>
<td>-</td>
<td>140,806</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>58,968</td>
<td>1,577</td>
<td>11,190,996</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$ 536,051</td>
<td>$ 1,577</td>
<td>$ 11,695,720</td>
<td></td>
</tr>
</tbody>
</table>

The beneficial interest in trust represents amounts held by The Community Foundation of Santa Clara County on behalf of the Tech.
NOTE C - CONTRIBUTED SUPPORT RECEIVABLE

Contributed support receivables are recorded after discounting the future cash flows to present value using a discount rate of 6%. Maturities of these receivables are as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 1998</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contributed</td>
<td>Contributed</td>
<td>Contributed</td>
</tr>
<tr>
<td></td>
<td>Support</td>
<td>Public Support</td>
<td>Use of Facility</td>
</tr>
<tr>
<td>1999</td>
<td>$2,940,043</td>
<td>$158,888</td>
<td>$1,404,000</td>
</tr>
<tr>
<td>2000</td>
<td>1,379,724</td>
<td>-</td>
<td>1,404,000</td>
</tr>
<tr>
<td>2001</td>
<td>175,645</td>
<td>-</td>
<td>1,404,000</td>
</tr>
<tr>
<td>2002</td>
<td>65,131</td>
<td>-</td>
<td>1,404,000</td>
</tr>
<tr>
<td>2003</td>
<td>-</td>
<td>-</td>
<td>1,404,000</td>
</tr>
<tr>
<td>2004 and thereafter</td>
<td>-</td>
<td>-</td>
<td>64,389,600</td>
</tr>
<tr>
<td></td>
<td>4,560,543</td>
<td>158,888</td>
<td>71,409,600</td>
</tr>
<tr>
<td>Less discount for present value</td>
<td>(362,413)</td>
<td>-</td>
<td>(49,192,878)</td>
</tr>
<tr>
<td>Less allowance for estimated uncollectible contributed support</td>
<td>(406,419)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$3,791,711</td>
<td>$158,888</td>
<td>$22,216,722</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>December 31, 1997</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contributed</td>
<td>Contributed</td>
<td>Contributed</td>
</tr>
<tr>
<td></td>
<td>Support</td>
<td>Public Support</td>
<td>Use of Facility</td>
</tr>
<tr>
<td>1998</td>
<td>$7,290,067</td>
<td>$500,000</td>
<td>$194,400</td>
</tr>
<tr>
<td>1999</td>
<td>1,880,029</td>
<td>-</td>
<td>1,404,000</td>
</tr>
<tr>
<td>2000</td>
<td>730,833</td>
<td>-</td>
<td>1,404,000</td>
</tr>
<tr>
<td>2001</td>
<td>47,516</td>
<td>-</td>
<td>1,404,000</td>
</tr>
<tr>
<td>2002</td>
<td>10,000</td>
<td>-</td>
<td>1,404,000</td>
</tr>
<tr>
<td>2003 and thereafter</td>
<td>-</td>
<td>-</td>
<td>71,604,000</td>
</tr>
<tr>
<td></td>
<td>9,958,445</td>
<td>500,000</td>
<td>77,414,400</td>
</tr>
<tr>
<td>Less discount for present value</td>
<td>(635,267)</td>
<td>(14,563)</td>
<td>(56,040,074)</td>
</tr>
<tr>
<td>Less allowance for estimated uncollectible contributed support</td>
<td>(546,865)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$8,776,313</td>
<td>$485,437</td>
<td>$21,374,326</td>
</tr>
</tbody>
</table>
The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1998 and 1997

NOTE C - CONTRIBUTED SUPPORT RECEIVABLE (continued)

The contributed support receivables are generally restricted to the design, construction and installation of exhibits, operating and educational center, property and equipment for the permanent facility and related marketing, fund raising and other services. The receivable for the contributed use of the facility reflects the fair value of the use of the facility for 55 years (through 2053) using current rental rates.

NOTE D - CONDITIONAL CONTRIBUTED SUPPORT

The Tech has received a funding commitment from the City for $1,300,000 of annual support which is conditioned on the City’s annual ability to fund the contribution. The Tech received a prorated amount in 1998 as the new museum opened in October 1998. The contribution is for operation and maintenance costs and spans the life of the related lease discussed in Note C. In addition, the Tech received a conditional pledge of $900,000 from a donor, of which $250,000 was received in 1998. The remaining pledge of $650,000 is conditioned on the donor’s ability to fund the contribution. These contributions have not been reflected in the accompanying financial statements given their conditional nature.

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibits and furnishings</td>
<td>$22,608,895</td>
<td>$6,670,341</td>
</tr>
<tr>
<td>Furniture, fixtures and improvements</td>
<td>4,260,173</td>
<td>899,539</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>7,427,805</td>
<td>2,093,212</td>
</tr>
<tr>
<td></td>
<td>34,296,873</td>
<td>9,663,092</td>
</tr>
<tr>
<td>Less: accumulated depreciation</td>
<td>4,292,853</td>
<td>9,231,094</td>
</tr>
<tr>
<td></td>
<td><strong>30,004,020</strong></td>
<td><strong>431,958</strong></td>
</tr>
</tbody>
</table>

Depreciation expense for the years ended December 31, 1998 and 1997 was $1,156,093 and $150,876, respectively.

NOTE F - NOTE PAYABLE

The note payable to bank in the amount of $700,000 is an unsecured term loan due December, 2003. Principal payments of $11,667 are due each month. The loan bears interest equal to the bank's reference rate (7.75% at December 31, 1998) plus .5%.

Maturities of the loan for the five years following 1998 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$140,000</td>
</tr>
<tr>
<td>2000</td>
<td>140,000</td>
</tr>
<tr>
<td>2001</td>
<td>140,000</td>
</tr>
<tr>
<td>2002</td>
<td>140,000</td>
</tr>
<tr>
<td>2003</td>
<td>140,000</td>
</tr>
</tbody>
</table>

$700,000
The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1998 and 1997

NOTE G - LINE OF CREDIT

The Tech has available a $1,500,000 bank line of credit. The line of credit bears interest equal to the bank's reference rate (7.75% at December 31, 1998). The credit agreement expires October 1, 1999. There was no outstanding balance on this line of credit at December 31, 1998.

NOTE H - RELATED PARTY TRANSACTIONS

For the years ended December 31, 1998 and 1997, the Tech received cash and stock contributions and equipment donations amounting to $11,921,357 and $9,447,000, respectively, from members of the Board of Directors of the Tech or companies with which the Board of Directors are affiliated. At December 31, 1998 and 1997, the present value of contributed support receivables from these related parties approximated $1,364,427 and $4,709,000, respectively.

NOTE I - COMMITMENTS

The Tech is obligated under noncancelable operating leases for office and storage space which expire on June 30, 2001. Future minimum noncancelable lease payments under the Tech's leases are as follows:

<table>
<thead>
<tr>
<th>Year ending December 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$ 244,194</td>
</tr>
<tr>
<td>2000</td>
<td>161,960</td>
</tr>
<tr>
<td>2001</td>
<td>167,350</td>
</tr>
<tr>
<td>2002</td>
<td>167,840</td>
</tr>
<tr>
<td>2003 and thereafter</td>
<td>594,950</td>
</tr>
<tr>
<td></td>
<td>$ 1,336,294</td>
</tr>
</tbody>
</table>

In 1998 and 1997, total rent expense was $604,725 and $301,023, respectively, including $428,400 and $194,400 representing the contributed use of the facility for 1998 and 1997, respectively.

The Tech has a 10-year lease commitment for the IMAX theater which the Tech elected to prepay in full in 1998. The Tech will recognize lease expense of $213,400, annually, through 2008.

Included in the commitments above is a maintenance agreement related to the IMAX theater equipment lease for a minimum of $62,000 each year over the term of the 10 year lease.

NOTE J - MAJOR CONTRIBUTIONS

In 1998, 4 donors accounted for 31% of contributed support. In 1997, 4 donors accounted for 67% of contributed support.
The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1998 and 1997

NOTE K - EMPLOYEE BENEFIT PLAN

The Tech provides a defined contribution plan for all full-time employees. The plan provides for employee contributions although the employer does not contribute at this time.

NOTE L - NET ASSETS

Temporarily restricted net assets are restricted by donors for the purposes described below. Permanently restricted net assets consist of investments held in perpetuity, the income of which is expendable for the purposes described below at December 31:

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Temporarily</td>
<td>Permanently</td>
</tr>
<tr>
<td></td>
<td>Restricted</td>
<td>Restricted</td>
</tr>
<tr>
<td>Education and programs</td>
<td>$2,172,938</td>
<td>$200,000</td>
</tr>
<tr>
<td>New museum</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tech Museum projects</td>
<td>$2,621,100</td>
<td>-</td>
</tr>
<tr>
<td>Annual campaign</td>
<td>$732,920</td>
<td>-</td>
</tr>
<tr>
<td>Use of facilities</td>
<td>$22,216,722</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$27,743,680</td>
<td>$200,000</td>
</tr>
</tbody>
</table>

NOTE M - NET ASSETS RELEASED FROM RESTRICTION

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 restriction as follows for the years ended December 31:

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purposes restrictions accomplished:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>$424,884</td>
<td>$20,213</td>
</tr>
<tr>
<td>New museum</td>
<td>$3,477,672</td>
<td>$6,276,012</td>
</tr>
<tr>
<td>Time restriction met:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of facilities</td>
<td>$428,400</td>
<td>$194,400</td>
</tr>
<tr>
<td></td>
<td>$35,330,956</td>
<td>$6,490,625</td>
</tr>
</tbody>
</table>
SUPPLEMENTARY INFORMATION
Report on Independent Certified Public Accountants
on Schedule of Federal Awards

Board of Directors
The Tech Museum of Innovation

Our audit was made for the purpose of forming an opinion on the basic financial statements of The Tech Museum of Innovation taken as a whole, which are presented in the preceding section of this report. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget ("OMB") Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The information in the Schedule of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Grant Thornton LLP
San Jose, California
April 16, 1999
The Tech Museum of Innovation

SCHEDULE OF FEDERAL AWARDS

Year ended December 31, 1998

<table>
<thead>
<tr>
<th>Federal Grantor Program Title</th>
<th>Federal CFDA Number</th>
<th>Grantor's Number</th>
<th>Program Award Amount</th>
<th>Federal Award Revenue</th>
<th>Expenditures Covered Directly By Grants</th>
<th>The Tech Matching Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Science Foundation (one major program)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;Exploration: An Exhibit About the Discovery of Our World and the World Beyond&quot;</td>
<td>47.076</td>
<td>ESI-9627196</td>
<td>$644,738</td>
<td>$211,187</td>
<td>$211,187</td>
<td>$2,735,769</td>
</tr>
<tr>
<td>&quot;Innovation II: An Exhibit to Foster an Understanding of and Invite Participation in the Process of Innovation&quot;</td>
<td>47.076</td>
<td>ESI-9705633</td>
<td>393,725</td>
<td>156,706</td>
<td>156,706</td>
<td>10,235,255</td>
</tr>
<tr>
<td>Total National Science Foundation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1,038,463</td>
<td>367,893</td>
<td>367,893</td>
<td>12,971,024</td>
</tr>
<tr>
<td>United States Department of Commerce</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;A Cooperative Agreement: An Exhibit to Foster an Understanding of Technological Innovation, as Embodied by the National Medal of Technology Presidential Awards&quot;</td>
<td>N/A</td>
<td>9846165</td>
<td>50,000</td>
<td>8,208</td>
<td>8,208</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$1,088,463</td>
<td>$376,101</td>
<td>$376,101</td>
<td>$12,971,024</td>
</tr>
</tbody>
</table>
Board of Directors
The Tech Museum of Innovation

We have audited the financial statements of The Tech Museum of Innovation (the “Organization”), as of and for the year ended December 31, 1998, and have issued our report thereon dated April 16, 1999. We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Organization’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the finance committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Jose, California
April 16, 1999
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
The Tech Museum of Innovation

Compliance

We have audited the compliance of The Tech Museum of Innovation (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 1998. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 1998. The results of our auditing procedures do not disclose any instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance was not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in
relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

San Jose, California
April 16, 1999
The Tech Museum of Innovation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended December 31, 1998

SECTION I — SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: ................................................................. unqualified

Internal control over financial reporting:

• Material weakness identified? ................................................................. no

• Reportable conditions identified that are not considered to be material weaknesses? ................................................................. none reported

Noncompliance material to financial statements noted? ................................................................. no

Federal Awards

Internal control over major programs:

• Material weakness identified? ................................................................. no

• Reportable conditions identified that are not considered to be material weaknesses? ................................................................. none reported

Type of auditor’s report issued on compliance for major programs: ................................................................. unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ................................................................. no

Identification of major programs:

<table>
<thead>
<tr>
<th>CFDA Numbers</th>
<th>Name of Federal Program or Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>47.076</td>
<td>Exploration/Innovation</td>
</tr>
</tbody>
</table>

Dollar threshold used to distinguish between type A and type B programs: ................................................................. $300,000

Auditee qualified as low-risk auditee? ................................................................. no
SECTION II — FINANCIAL STATEMENT FINDINGS

No matters to report.

SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters to report.

SECTION IV— STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

97-1 Finding

During fiscal year 1997, the Tech's key internal control procedure surrounding the main operating bank account was to review the monthly bank statement for reasonableness. Formal bank reconciliations for the account were not performed until late 1997 and early 1998.

Questioned Costs

None.

Recommendation

Timely and thorough bank reconciliations are a key internal control over both cash disbursements as well as interbank transfers. Failure to timely reconcile outstanding items increases the chances of misstatement of bank account balances or other financial statement accounts and increases the potential for undetected misappropriation of the Organization's assets. Accordingly, we recommend formal bank reconciliations be performed on a monthly basis.

Management's Response

A system to reconcile the main bank statement has been established and the reconciliations are being completed on a monthly basis. During 1997, the main bank statement was not reconciled in a timely manner because of changes in personnel that delayed the initialization of the bank reconciliation system.

Current Status

The Tech now has a system to reconcile the main bank statement on a monthly basis.
The Tech Museum of Innovation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended December 31, 1998

SECTION IV—STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (continued)

97-2 Finding

The Tech’s management personnel responsible for approving changes in employee salaries do not consistently sign the “change in employee status forms” which are forwarded to Human Resources for processing. Human Resources, in turn, will adjust salary within the payroll system without evidence of such approval on the forms.

Questioned Costs

None.

Recommendation

We recommend all “change in employee status forms” be signed by management and that Human Resources refuse to adjust pay rates in the payroll system without such documented approval. This will prevent unauthorized changes being made to the payroll system.

Management’s Response

Human Resources will require that all “Change in Employee Status” forms be signed by the appropriate management prior to adjusting pay rates consistent with the Financial Policies of the Tech. It was an oversight that the forms for the annual merit increase which were extensively reviewed and approved by management in the 1997 Compensation Review Meeting were not also signed by management.

Current Status

All pay rate adjustments in 1998 were documented on the “Change in Employee Status” forms and have been signed by the appropriate management prior to adjusting the pay rates.
97-3  Finding

As a recipient of federal grants, the Tech is required to comply with Office of Management and Budget (OMB) Circular A-122 “Cost Principles for Non-Profit Organizations” which establishes the principles for charging costs to federal grants. Included within the provisions of OMB Circular A-122 are specific requirements relating to support for any salaries and wages charged to a grant. The circular requires that reports (time cards or equivalent) reflecting the distribution of activity of each employee must be maintained for all staff members whose compensation is charged, in whole or in part, directly to a federal grant. These reports must be prepared at least monthly and must coincide with one or more pay periods. Furthermore, these reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, and that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. The time reports currently used by the Tech do require employee and supervisory signatures but they do not expressly indicate the number of hours spent on a federal grant project as required by OMB Circular A-122. Hours charged to federal grants are, instead, maintained on a separate spreadsheet which is not necessarily maintained on a monthly basis.

Questioned Costs

None.

Recommendation

We recommend that the Tech’s procedures to track salaries and wages charged to Federal programs be modified so that distribution of an employee’s activity is reflected directly on their time card.

Management’s Response

The current procedure that requires authorization by the project manager for the allocation of compensation charges for employee to federal grants will be performed on a monthly basis. The procedure will also be followed for allocation of compensation charges for employees that are a part of the Tech’s matching for the federal grants.

Current Status

The Tech’s time cards now reflect the number of hours to be charged to a federal grant for each pay period.
97-4 Finding

As a recipient of several Federal grants from the National Science Foundation ("NSF"), the Tech is required to report expenditures incurred on those grants to the cognizant NSF officer on an annual basis. We noted that the costs reported to National Science Foundation in the annual submission were estimates provided by the project managers instead of the actual and matching costs incurred as tracked in the accounting department. Furthermore, there was no reconciliation of these reported costs to actual cost data maintained by the accounting department.

Questioned Costs

None.

Recommendation

We recommend that the Tech use actual cost data tracked by the accounting department when reporting expenditures on the Federal grants to NSF.

Management's Response

The Tech's financial records will be used as the basis for reporting the cost date to the National Science Foundation's annual project reports.

Current Status

The Tech used actual cost data as the basis for reporting the cost to date to the National Science Foundation’s project reports.