

Financial Statements and
Report of Independent Certified Public Accountants
The Tech Museum of Innovation
December 31, 2001 and 2000

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, 2001 and 2000, 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 auditing standards generally accepted in the United States of America. 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, 2001 and 2000, and the changes 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.

Grant Thornton LLP

San Jose, California
April 19, 2002

STATEMENTS OF FINANCIAL POSITION

December 31,

	2001			2000				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Cash and cash equivalents	\$ 115,513	\$ 2,086,238	\$ 322,581	\$ 2,524,332	\$ 800,044	\$ 2,737,352	\$ -	\$ 3,537,396
Investments	287,614	-	8,162,711	8,450,325	495,998	110,822	6,198,813	6,805,633
Grants receivable, net	-	-	-	-	22,958	-	-	22,958
Other receivable	330,727	-	-	330,727	182,491	-	-	182,491
Inventory	268,075	-	-	268,075	298,584	-	-	298,584
Prepaid expenses and other assets	1,882,489	-	-	1,882,489	2,207,572	-	-	2,207,572
Contributed support receivable, net	-	420,018	3,678,823	4,098,841	-	1,716,197	4,174,050	5,890,247
Receivable for contributed use of facility, net	-	22,269,395	-	22,269,395	-	22,333,392	-	22,333,392
Property and equipment, net	23,129,525	-	-	23,129,525	27,816,488	-	-	27,816,488
	<u>\$ 26,013,943</u>	<u>\$ 24,775,651</u>	<u>\$ 12,164,115</u>	<u>\$ 62,953,709</u>	<u>\$ 31,824,135</u>	<u>\$ 26,897,763</u>	<u>\$ 10,372,863</u>	<u>\$ 69,094,761</u>
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable and accrued expenses	\$ 1,092,964	\$ -	\$ -	\$ 1,092,964	\$ 1,454,229	\$ -	\$ -	\$ 1,454,229
Payable (receivable) between net asset categories	550,788	(243,324)	(307,464)	-	256,039	(108,342)	(147,697)	-
Deferred revenue	302,616	-	-	302,616	332,970	-	-	332,970
Note payable	280,000	-	-	280,000	420,000	-	-	420,000
Total liabilities	2,226,368	(243,324)	(307,464)	1,675,580	2,463,238	(108,342)	(147,697)	2,207,199
Net assets								
Unrestricted	658,050	-	-	658,050	1,544,409	-	-	1,544,409
Designated for property and equipment	23,129,525	-	-	23,129,525	27,816,488	-	-	27,816,488
Temporarily restricted	-	25,018,975	-	25,018,975	-	27,006,105	-	27,006,105
Permanently restricted	-	-	12,471,579	12,471,579	-	-	10,520,560	10,520,560
Total net assets	23,787,575	25,018,975	12,471,579	61,278,129	29,360,897	27,006,105	10,520,560	66,887,562
	<u>\$ 26,013,943</u>	<u>\$ 24,775,651</u>	<u>\$ 12,164,115</u>	<u>\$ 62,953,709</u>	<u>\$ 31,824,135</u>	<u>\$ 26,897,763</u>	<u>\$ 10,372,863</u>	<u>\$ 69,094,761</u>

See accompanying notes to financial statements.

The Tech Museum of Innovation

STATEMENTS OF ACTIVITIES

Year ended December 31,

	2001		2000					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Public support	\$ 1,238,220	\$ 108,333	\$ -	\$ 1,346,553	\$ 1,202,646	\$ 108,333	\$ -	\$ 1,310,979
Contributed support and special events, net of allowance and net present value adjustment	5,405,643	576,913	1,951,019	7,933,575	5,372,115	3,455,301	5,334,214	14,161,630
Donated property, services and rent	1,849,733	1,340,003	-	3,189,736	2,232,164	1,490,947	-	3,723,111
Admissions and fees	4,702,809	-	-	4,702,809	7,250,204	-	-	7,250,204
Store revenue	977,867	-	-	977,867	1,328,988	-	-	1,328,988
Federal awards	-	-	-	-	204,678	-	-	204,678
Interest income	162,320	93,962	-	256,282	94,321	128,777	-	223,098
Realized and unrealized loss on investments, net	(321,680)	-	-	(321,680)	(235,402)	-	-	(235,402)
Other income	6,706	-	-	6,706	51,789	-	-	51,789
Net assets released from restriction	4,106,341	(4,106,341)	-	-	4,816,601	(4,816,601)	-	-
Total support and revenue	18,127,959	(1,987,130)	1,951,019	18,091,848	22,318,104	366,757	5,334,214	28,019,075
Expenses:								
Program services								
Exhibits, programs, and experiences	11,022,768	-	-	11,022,768	9,445,673	-	-	9,445,673
Visitor services	4,105,695	-	-	4,105,695	6,013,833	-	-	6,013,833
Education	1,140,279	-	-	1,140,279	935,519	-	-	935,519
Supporting services								
Development and special events	2,864,403	-	-	2,864,403	2,614,254	-	-	2,614,254
Management and general								
Marketing and public relations	1,759,103	-	-	1,759,103	2,856,347	-	-	2,856,347
Administration	2,809,033	-	-	2,809,033	2,926,863	-	-	2,926,863
Total expenses	23,701,281	-	-	23,701,281	24,792,489	-	-	24,792,489
Change in net assets	(5,573,322)	(1,987,130)	1,951,019	(5,609,433)	(2,474,385)	366,757	5,334,214	3,226,586
Net assets at beginning of year	29,360,897	27,006,105	10,520,560	66,887,562	31,835,282	26,639,348	5,186,346	63,660,976
Net assets at end of year	\$ 23,787,575	\$ 25,018,975	\$ 12,471,579	\$ 61,278,129	\$ 29,360,897	\$ 27,006,105	\$ 10,520,560	\$ 66,887,562

See accompanying notes to financial statements.

The Tech Museum of Innovation
STATEMENTS OF CASH FLOWS

Years ended December 31,

	2001	2000
Cash flows from operating activities:		
Change in net assets	\$ (5,609,433)	\$ 3,226,586
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	5,409,927	5,067,184
Gain on disposal of assets	(10,805)	-
Provision (reduction in allowance) for estimated uncollectible contributed support	(171,703)	168,174
Present value adjustment, net	(235,038)	263,148
Donated equipment	(235,587)	(904,175)
Donated investments	(1,156,795)	(1,904,857)
Contributions restricted for investment in endowment	(1,951,019)	(5,334,214)
Realized and unrealized loss on investments	321,680	235,402
Changes in operating assets and liabilities:		
Support receivables	2,262,144	(1,672,497)
Grants receivable	22,958	255,315
Other receivable	(148,236)	(72,910)
Prepaid expenses and other assets	325,083	(270,733)
Inventory	30,509	5,587
Accounts payable and accrued expenses	(361,265)	(936,010)
Deferred revenue	(30,354)	(66,641)
Net cash used in operating activities	(1,537,934)	(1,940,641)
Cash flows from investing activities:		
Purchases of property and equipment	(476,572)	(2,400,729)
Purchases of investments	(6,778,974)	(4,166,070)
Proceeds from sales of investments	5,969,397	3,695,957
Net cash used in investing activities	(1,286,149)	(2,870,842)
Cash flows from financing activities:		
Contributions restricted for investment in endowment	1,951,019	5,334,214
Payment on notes payable	(140,000)	(140,000)
Net cash provided by financing activities	1,811,019	5,194,214
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,013,064)	382,731
Cash and cash equivalents, beginning of year	3,537,396	3,154,665
Cash and cash equivalents, end of year	\$ 2,524,332	\$ 3,537,396
Supplemental disclosure of cash flow information:		
Interest paid	\$ 39,720	\$ 48,521

See accompanying notes to financial statements.

The Tech Museum of Innovation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 and 2000

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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 operate 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's support and revenue comes primarily through contributions, federal awards, admissions and fees, and store revenue.

Cash and Cash Equivalents

The Tech considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

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 use as directed by the donor.

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.

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.

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.

The Tech Museum of Innovation
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2001 and 2000

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

Investments

Investments consist primarily of U.S. Treasury Bills, corporate stocks and an interest in the Offit Bank pooled investment fund (fund of equity and debt securities). Investments are carried at fair value as determined by quoted market prices.

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.

Property and Equipment

Property and equipment are stated at cost for purchased assets and at estimated fair value for contributed assets. Depreciation on exhibits, furniture, fixtures and improvements is computed by the straight-line method over the estimated useful lives of the assets, which range 3 - 7 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.

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.

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.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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 Museum of Innovation
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2001 and 2000

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

The Tech's allowance for estimated uncollectible contributed support receivables of \$487,273 and \$658,976, at December 31, 2001 and 2000, respectively is a particularly significant estimate. 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.

The Tech's estimate of the useful life of exhibits is also a particularly sensitive estimate. Exhibits are depreciated over seven years, which corresponds with the Organization's plan to replace all exhibits within that timeframe.

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.

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.

There were no federal awards received in 2001.

Reclassifications

Certain 2000 amounts have been reclassified to conform to the 2001 presentation.

Advertising

All costs associated with advertising and promoting the Organization's activities are expensed in the year incurred. Advertising expense in 2001 and 2000 was \$884,118 and \$1,787,969, respectively.

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

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

Concentration of Credit Risk

The Organization maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation for up to \$100,000. Uninsured balances aggregate to \$2,296,049 and \$3,727,977 at December 31, 2001 and 2000 respectively. Based upon the financial strength of its primary depository bank, it is the Organization's opinion that it is not exposed to any significant credit risk.

NOTE B - CASH AND INVESTMENTS

Information relative to cash and investments, is summarized as follows:

	2001		
	Interest Income	Net Realized/ Unrealized Gain (Losses)	Fair Value
Equity Securities	\$ 2,515	\$ 31,758	\$ 1,726,455
University Technology Joint Venture	-	(29,249)	170,951
Community Foundation Silicon Valley pooled investment fund	57,057	(335,334)	-
Offit Bank pooled investment fund	<u>76,383</u>	<u>11,145</u>	<u>6,552,649</u>
	135,955	(321,680)	8,450,055
Cash	<u>120,327</u>	-	<u>2,524,332</u>
	<u>\$ 256,282</u>	<u>\$ (321,680)</u>	<u>\$ 10,974,387</u>
	2000		
	Interest Income	Net Realized/ Unrealized Losses	Fair Value
U.S. Government Securities	\$ 67,532	\$ -	\$ 593,445
Equity Securities	1,458	(133,530)	980,617
Community Foundation Silicon Valley pooled investment fund	<u>(1,879)</u>	<u>(101,872)</u>	<u>5,231,571</u>
	67,111	(235,402)	6,805,633
Cash	<u>155,987</u>	-	<u>3,537,396</u>
	<u>\$ 223,098</u>	<u>\$ (235,402)</u>	<u>\$ 10,343,029</u>

The Tech Museum of Innovation
NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

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. They also include endowment pledges, which are permanently restricted. The Tech has entered into an agreement with the City of San Jose (the "City") for the lease of its primary facility for \$1 a year. 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 contribution is for operation and maintenance costs and spans the life of the related lease discussed in Note C.

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31,:

	2001	2000
Exhibits	\$ 24,854,728	\$ 24,583,911
Furniture, fixtures and improvements	6,884,253	6,971,218
Leasehold improvements	10,165,891	10,152,010
	41,904,872	41,707,139
Less: accumulated depreciation	19,106,486	13,945,276
Construction in Progress	331,139	54,624
	\$ 23,129,525	\$ 27,816,488

Depreciation expense for the years ended December 31, 2001 and 2000 was \$5,409,927 and \$5,067,184, respectively.

The Tech Museum of Innovation
NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

NOTE F - NOTE PAYABLE

The note payable to bank in the amount of \$280,000 at December 31, 2001 and \$420,000 at December 31, 2000 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 plus .5% (5.25% at December 31, 2001). The loan agreement is subject to certain restrictive financial covenants which were met at December 31, 2001.

Maturities of the loan for the years following 2001 are as follows:

2002	\$ 140,000
2003	<u>140,000</u>
	<u>\$ 280,000</u>

NOTE G - LINE OF CREDIT

The Tech has available a \$1,500,000 unsecured bank line of credit. The line of credit bears interest equal to the bank's reference rate (4.75% at December 31, 2001). The credit agreement expires October 1, 2002. There was no outstanding balance on this line of credit at December 31, 2001 or 2000. This line is subject to certain restrictive covenants which were met at December 31, 2001.

NOTE H - RELATED PARTY TRANSACTIONS

For the years ended December 31, 2001 and 2000, the Tech received cash and stock contributions and equipment donations amounting to \$3,485,457 and \$10,098,829, respectively, from members of the Board of Directors of The Tech or companies with which the Board of Directors are affiliated. These receipts were recorded as revenue in the year pledged.

NOTE I - COMMITMENTS

The Tech is obligated under noncancelable operating leases for office, storage space and exhibits, which expire in January 2004 and September 2007, respectively. Future minimum noncancelable lease payments under the Tech's leases are as follows:

Year ending December 31,

2002	\$ 393,950
2003	459,340
2004	111,420
2005	76,110
2006	76,110
2007 and thereafter	<u>139,534</u>
	<u>\$ 1,256,464</u>

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

NOTE I - COMMITMENTS (continued)

In 2001 and 2000, total rent expense was \$1,828,601 and \$1,823,372, respectively, including \$1,404,000 representing the contributed use of the facility for 2001 and 2000, respectively.

The Tech has a 10-year lease commitment for the IMAX theater, which the Tech elected to prepay in 1998. The Tech will recognize lease expense of \$236,800, annually, through 2008. The Tech is subject to additional rent payments based on 7% of annual gross revenues over \$2,000,000 from the IMAX theater.

Included in the commitments above is a maintenance agreement related to the IMAX theater equipment lease which requires a minimum of \$64,500 in maintenance each year over the term of the 10 year lease.

NOTE J - MAJOR CONTRIBUTIONS

In 2001, eleven donors accounted for 52% of contributed support. In 2000, six donors accounted for 48% of contributed support

NOTE K - EMPLOYEE BENEFIT PLANS

The Tech provides a defined contribution plan for all full-time employees. The plan provides for employee contributions plus employer contributions at The Tech's discretion. The Tech contributed \$75,284 and \$77,790 for the year ended December 31, 2001 and December 31, 2000, respectively.

In 1999, The Tech initiated a Key Employee Option Plan whereby selected employees enter into pre-tax compensation reduction option agreements with The Tech concurrent with being awarded non-qualified options to purchase shares in a fund. The number of non-qualified options granted is based on actual compensation reduction amounts assuming a 25% discount from fair market value to be paid upon exercise. The fund is comprised of two mutual funds and had a fair value of \$287,555 and \$287,629 at December 31, 2001 and 2000, respectively. The fund was created with the monies contributed by The Tech and employees as specified in their respective compensation reduction option agreements. Employees may exercise their options on or after the first January 1 following the first anniversary of their compensation reduction option agreement. The exercise price per share of the shares to be purchased is 25% of the lesser of the Exercise Rate Fair Market Value or the Grant Date Fair Market Value increased by 7% per year from the grant date, compounded annually. The fair market value shall be based on prices reported on an established recognized stock exchange, unless the shares are not publicly traded, in which case it shall be determined by the Executive Committee of the Board of Directors of The Tech. At December 31, 2001 and 2000, The Tech had awarded options to six employees, all of which were exercisable. Included in accrued liabilities at December 31, 2001 and 2000 is \$245,973 and \$270,370, respectively, associated with this plan.

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2001 and 2000

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,:

	2001		2000	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Education and programs	\$ 2,221,229	\$ 12,471,579	\$ 2,848,174	\$ 10,520,560
In kind equipment pledges	-	-	86,670	-
Capital campaign support receivable	108,316	-	616,365	-
City of San Jose, restricted for subsequent years operations	108,333	-	108,333	-
Annual campaign support receivable	311,702	-	1,013,171	-
Use of facilities	<u>22,269,395</u>	-	<u>22,333,392</u>	-
	<u>\$ 25,018,975</u>	<u>\$ 12,471,579</u>	<u>\$ 27,006,105</u>	<u>\$ 10,520,560</u>

The permanently restricted investment portfolio was reduced below the donors' original donations due to investment losses in fiscal years 2001 and 2000. The unrestricted net asset category has a liability of \$307,464 and \$147,697 due to the permanently restricted net asset category to restore the original amount in the endowment at December 31, 2001 and 2000, respectively. The permanently restricted net asset category has a corresponding receivable from the unrestricted net asset category.

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,:

	2001	2000
Purposes restrictions accomplished:		
Education	\$ 753,766	\$ 1,414,230
New museum	540,175	696,571
Time restriction met:		
Annual campaign receivables collected	1,408,400	1,301,800
Rent expense (contributed)	<u>1,404,000</u>	<u>1,404,000</u>
	<u>\$ 4,106,341</u>	<u>\$ 4,816,601</u>