



The Tech Interactive

Financial Statements

June 30, 2020 and 2019

Board of Directors
The Tech Interactive
San Jose, California



Certified
Public
Accountants

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of The Tech Interactive, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Tech Interactive as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frank, Rimerman & Co. LLP

San Jose, California
October 23, 2020

The Tech Interactive
Statements of Financial Position

	June 30, 2020			June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS						
Cash and Cash Equivalents	\$ 698,223	\$ 2,492,414	\$ 3,190,637	\$ 1,032,587	\$ 554,689	\$ 1,587,276
Grants and Other Receivables	30,505	724,811	755,316	313,867	377,404	691,271
Pledges Receivable, net	5,100	4,452,659	4,457,759	27,551	3,113,593	3,141,144
Prepaid Expenses and Other Assets	208,901	-	208,901	286,276	-	286,276
Investments	5,107,846	29,755,558	34,863,404	1,009,011	28,701,388	29,710,399
Property, Exhibits and Equipment, net	9,242,747	-	9,242,747	10,988,841	-	10,988,841
Beneficial Interest in Use of Facilities, net	-	42,391,322	42,391,322	-	20,264,204	20,264,204
Total assets	<u>\$ 15,293,322</u>	<u>\$ 79,816,764</u>	<u>\$ 95,110,086</u>	<u>\$ 13,658,133</u>	<u>\$ 53,011,278</u>	<u>\$ 66,669,411</u>
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	\$ 49,425	\$ -	\$ 49,425	\$ 438,592	\$ -	\$ 438,592
Accrued expenses	578,075	-	578,075	972,372	-	972,372
Deferred revenue	294,743	-	294,743	603,172	-	603,172
Capital lease obligation	4,133	-	4,133	7,948	-	7,948
Line of credit	2,000,000	-	2,000,000	-	-	-
Term loan	1,933,780	-	1,933,780	-	-	-
Total liabilities	<u>4,860,156</u>	<u>-</u>	<u>4,860,156</u>	<u>2,022,084</u>	<u>-</u>	<u>2,022,084</u>
Commitments (Notes 5, 9 and 10)						
Net Assets						
Without donor restrictions	10,433,166	-	10,433,166	11,636,049	-	11,636,049
With donor restrictions	-	79,816,764	79,816,764	-	53,011,278	53,011,278
Total net assets	<u>10,433,166</u>	<u>79,816,764</u>	<u>90,249,930</u>	<u>11,636,049</u>	<u>53,011,278</u>	<u>64,647,327</u>
Total liabilities and net assets	<u>\$ 15,293,322</u>	<u>\$ 79,816,764</u>	<u>\$ 95,110,086</u>	<u>\$ 13,658,133</u>	<u>\$ 53,011,278</u>	<u>\$ 66,669,411</u>

See Notes to Financial Statements

The Tech Interactive
Statements of Activities
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues						
Public support	\$ 1,535,980	\$ -	\$ 1,535,980	\$ 1,818,645	\$ -	\$ 1,818,645
Contributed support	3,424,542	14,682,904	18,107,446	1,021,835	5,299,914	6,321,749
In-kind donations	1,390,137	-	1,390,137	645,739	-	645,739
Donated use of facilities	1,215,812	22,315,266	23,531,078	1,226,502	-	1,226,502
Admissions and fees	2,262,703	-	2,262,703	3,675,534	-	3,675,534
Rental and other income	1,155,388	-	1,155,388	1,879,534	-	1,879,534
Net assets released from restrictions	10,976,127	(10,976,127)	-	11,073,974	(11,073,974)	-
Total support and revenues	21,960,689	26,022,043	47,982,732	21,341,763	(5,774,060)	15,567,703
Expenses						
Program services						
Exhibits, programs and experiences	11,276,414	-	11,276,414	12,863,012	-	12,863,012
Education	2,978,164	-	2,978,164	2,483,821	-	2,483,821
Visitor services	2,617,904	-	2,617,904	2,715,643	-	2,715,643
Support services						
Fundraising and membership	1,960,818	-	1,960,818	2,067,105	-	2,067,105
General and administrative						
Marketing	1,211,609	-	1,211,609	1,810,537	-	1,810,537
Administration	3,365,441	-	3,365,441	2,116,047	-	2,116,047
Total expenses	23,410,350	-	23,410,350	24,056,165	-	24,056,165
Change in net assets from operations	(1,449,661)	26,022,043	24,572,382	(2,714,402)	(5,774,060)	(8,488,462)
Investment Income						
Investment income, net	246,778	783,443	1,030,221	206,745	1,899,110	2,105,855
Net investment income	246,778	783,443	1,030,221	206,745	1,899,110	2,105,855
Change in Net Assets	(1,202,883)	26,805,486	25,602,603	(2,507,657)	(3,874,950)	(6,382,607)
Net Assets, beginning of year	11,636,049	53,011,278	64,647,327	14,143,706	56,886,228	71,029,934
Net Assets, end of year	\$ 10,433,166	\$ 79,816,764	\$ 90,249,930	\$ 11,636,049	\$ 53,011,278	\$ 64,647,327

See Notes to Financial Statements

The Tech Interactive
Statement of Functional Expenses
Year Ended June 30, 2020

	Programs				Support Services				
	Exhibits, Programs and Experiences	Education	Visitor Services	Total Program Services	Fundraising and Membership	General and Administrative		Total Support Services	Total
						Marketing	Administration		
Salaries	\$ 3,314,542	\$ 1,468,054	\$ 1,505,157	\$ 6,287,753	\$ 802,554	\$ 636,966	\$ 1,139,120	\$ 2,578,640	\$ 8,866,393
Payroll Taxes	236,521	104,915	107,469	448,905	56,289	45,094	80,437	181,820	630,725
Benefits	279,769	122,904	130,778	533,451	68,107	59,288	97,431	224,826	758,277
Professional Fees	480,343	685,344	6,389	1,172,076	123,292	76,857	1,019,188	1,219,337	2,391,413
Materials and Supplies	463,363	51,455	30,099	544,917	12,040	18,362	80,552	110,954	655,871
Advertising and Public Relations	14,798	17,354	345	32,497	21,204	232,541	15,141	268,886	301,383
Royalties	189,243	-	-	189,243	-	-	-	-	189,243
Bankcard Fees	68	60	103,664	103,792	41	-	-	41	103,833
In-Kind Donations	-	-	-	-	236,043	-	329,016	565,059	565,059
Travel and Transportation	20,985	15,485	2,961	39,431	2,986	2,498	15,413	20,897	60,328
Occupancy	857,497	214,409	508,639	1,580,545	113,419	68,689	206,841	388,949	1,969,494
Building and Equipment Rental	464,394	5,808	-	470,202	-	-	(1,054)	(1,054)	469,148
Depreciation and Amortization	2,919,723	54,488	33,183	3,007,394	19,662	14,746	17,205	51,613	3,059,007
Donated Rent	1,224,049	68,519	62,011	1,354,579	37,066	12,355	-	49,421	1,404,000
The Tech for Global Good	534,913	-	-	534,913	388,409	-	-	388,409	923,322
The Tech Challenge and Related Expenses	23,672	52,114	15,611	91,397	26,721	-	56,388	83,109	174,506
Insurance	46,032	8,679	34,433	89,144	6,887	4,017	5,165	16,069	105,213
Other	206,502	108,576	77,165	392,243	46,098	40,196	304,598	390,892	783,135
Total expenses	<u>\$ 11,276,414</u>	<u>\$ 2,978,164</u>	<u>\$ 2,617,904</u>	<u>\$ 16,872,482</u>	<u>\$ 1,960,818</u>	<u>\$ 1,211,609</u>	<u>\$ 3,365,441</u>	<u>\$ 6,537,868</u>	<u>\$ 23,410,350</u>
Percent of Total Expenses	<u>48%</u>	<u>13%</u>	<u>11%</u>	<u>72%</u>	<u>9%</u>	<u>5%</u>	<u>14%</u>	<u>28%</u>	<u>100%</u>

See Notes to Financial Statements

The Tech Interactive
Statement of Functional Expenses
Year Ended June 30, 2019

	Programs				Support Services				
	Exhibits, Programs and Experiences	Education	Visitor Services	Total Program Services	Fundraising and Membership	General and Administrative		Total Support Services	Total
						Marketing	Administration		
Salaries	\$ 3,210,236	\$ 1,244,008	\$ 1,450,066	\$ 5,904,310	\$ 877,901	\$ 626,895	\$ 884,638	\$ 2,389,434	\$ 8,293,744
Payroll Taxes	224,759	88,139	97,719	410,617	59,990	43,714	64,715	168,419	579,036
Benefits	304,119	112,084	142,662	558,865	77,607	54,940	79,212	211,759	770,624
Professional Fees	356,224	270,958	53,857	681,039	69,431	440,940	489,405	999,776	1,680,815
Materials and Supplies	498,738	90,875	49,543	639,156	25,883	16,730	33,447	76,060	715,216
Advertising and Public Relations	83,543	7,891	15,542	106,976	32,331	504,965	7,795	545,091	652,067
Royalties	254,703	-	-	254,703	-	-	-	-	254,703
Bankcard Fees	-	-	126,692	126,692	-	-	-	-	126,692
In-Kind Donations	64,504	61,973	22,840	149,317	133,757	-	250,949	384,706	534,023
Travel and Transportation	32,806	13,771	4,050	50,627	6,934	5,593	15,943	28,470	79,097
Occupancy	960,885	139,073	579,571	1,679,529	110,191	63,926	110,977	285,094	1,964,623
Building and Equipment Rental	464,950	52,791	406	518,147	-	1,445	3,166	4,611	522,758
Depreciation and Amortization	3,255,591	59,861	35,367	3,350,819	19,424	14,568	16,996	50,988	3,401,807
Donated Rent	1,546,669	91,359	39,172	1,677,200	37,065	12,355	-	49,420	1,726,620
The Tech for Global Good	1,354,224	-	-	1,354,224	486,676	-	-	486,676	1,840,900
The Tech Challenge and Related Expenses	104,278	219,786	6,910	330,974	69,142	2,148	28,359	99,649	430,623
Insurance	43,496	9,125	36,501	89,122	7,300	4,258	5,475	17,033	106,155
Other	103,287	22,127	54,745	180,159	53,473	18,060	124,970	196,503	376,662
Total expenses	<u>\$ 12,863,012</u>	<u>\$ 2,483,821</u>	<u>\$ 2,715,643</u>	<u>\$ 18,062,476</u>	<u>\$ 2,067,105</u>	<u>\$ 1,810,537</u>	<u>\$ 2,116,047</u>	<u>\$ 5,993,689</u>	<u>\$ 24,056,165</u>
Percent of Total Expenses	<u>54%</u>	<u>10%</u>	<u>11%</u>	<u>75%</u>	<u>9%</u>	<u>7%</u>	<u>9%</u>	<u>25%</u>	<u>100%</u>

See Notes to Financial Statements

The Tech Interactive
Statements of Cash Flows

	Years Ended June 30,	
	2020	2019
Cash Flows from Operating Activities:		
Change in net assets	\$ 25,602,603	\$ (6,382,607)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,059,007	3,401,807
In-kind rent expense related to donated use of facilities	188,148	500,118
Net realized and unrealized gain on investments	(846,608)	(1,689,163)
Change in discount on pledges receivable	61,706	(76,667)
Change in allowance on pledges receivable	(25,000)	-
In-kind donation of property, exhibits and equipment	(833,593)	-
In-kind donation of beneficial interest in use of facilities	(22,315,266)	-
Changes in operating assets and liabilities:		
Grants and other receivables	(64,045)	936,993
Pledges receivable	(1,353,321)	1,435,159
Prepaid expenses and other assets	77,375	78,983
Accounts payable	(389,167)	(1,638,426)
Accrued expenses	(394,297)	382,982
Deferred revenue	(308,429)	12,134
Net cash provided by (used in) operating activities	<u>2,459,113</u>	<u>(3,038,687)</u>
Cash Flows from Investing Activities:		
Net proceeds from sale and distribution of investments	3,421,057	1,018,176
Purchase of investments	(7,727,454)	(732,793)
Purchase of property, exhibits and equipment	(479,320)	(2,072,598)
Net cash used in investing activities	<u>(4,785,717)</u>	<u>(1,787,215)</u>
Cash Flows from Financing Activities:		
Payments on capital lease obligation	(3,815)	(869)
Proceeds from line of credit	2,000,000	-
Proceeds from term loan	1,933,780	-
Net cash provided by (used in) financing activities	<u>3,929,965</u>	<u>(869)</u>
Net increase (decrease) in cash and cash equivalents	1,603,361	(4,826,771)
Cash and Cash Equivalents, beginning of year	<u>1,587,276</u>	<u>6,414,047</u>
Cash and Cash Equivalents, end of year	<u>\$ 3,190,637</u>	<u>\$ 1,587,276</u>
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Amounts payable for construction in progress	<u>\$ -</u>	<u>\$ 524,687</u>

See Notes to Financial Statements

The Tech Interactive

Notes to Financial Statements

1. Nature of Activities

The Tech Interactive's (The Tech) mission is to inspire the innovator in everyone. The Tech accomplishes its mission by engaging visitors in hands-on learning experiences involving science and technology, through high-quality professional development for teachers and by making its facilities available for teacher training, and other community convening. Through its exhibits, programs and facilities, The Tech aims to inspire learning and invigorate innovation locally, nationally and globally.

The Tech's learning experiences include interactive exhibits, hands-on science labs, after-school activities and standards-based educational IMAX films. The Tech also hosts two annual signature programs. The Tech Challenge is a team competition that inspires thousands of students in grades 4-12 to design and build devices that solve a real-world problem. For 33 years, The Tech Challenge has connected with various ethnic and socioeconomic communities to introduce students not only to science, technology, engineering and mathematics (STEM) concepts, but also to the thrill of hands-on learning and real-world design. The Tech for Global Good inspires young people to use technology to solve global challenges by connecting with people doing just that around the world.

The Tech hosts over 500,000 people a year in its galleries and programs and has approximately 3,600 member households.

2. Significant Accounting Policies

Basis of Presentation:

The Tech prepares its financial statements in accordance with accounting standards for not-for-profit organizations. The standards require not-for-profit organizations to segregate their net assets into two categories: with donor restrictions and without donor restrictions. Net assets without donor restrictions consist of net assets for which there are no donor-imposed restrictions, or for which such donor-imposed restrictions were temporary and expired during the current or previous years. Net assets with donor restrictions consist of amounts receivable or received that are restricted by the donor for specific purposes or for subsequent periods. Some contributions received from donors are required to be maintained in perpetuity, while others expire over time, or when the donor-imposed restriction is satisfied. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

The Tech Interactive

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and reported amounts of support, revenues and expenses in the financial statements and accompanying notes. Significant estimates established by The Tech's management consist of the valuation of investments and the beneficial interest in use of facility. The value assigned to investments by The Tech's management are considered to be the amounts that could be realized from an orderly sale or other disposition of the investments. The value assigned to the beneficial interest in use of facilities by The Tech's management is considered to be the amount that The Tech would otherwise be required to pay for use of the facilities. Actual results could differ from those estimates.

Support:

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies the definition of an exchange transaction and provides guidance for evaluating whether contributions are unconditional or conditional. The standard was adopted by The Tech beginning July 1, 2019 using the modified prospective transition approach with no impact on its financial statements or related disclosures.

The Tech recognizes grants, contributions and pledges as revenue in the period the donor makes a promise to give that is, in substance, unconditional. Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which revenue is received. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction as to time or use expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Revenue Recognition:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (Topic 606). This accounting standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers to reflect the consideration to which the entity expects to be entitled to in exchange for goods and services. The adoption of Topic 606 did not result in changes in the criteria The Tech uses to account for its revenue recognition for its revenue-producing activities.

The Tech Interactive

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Revenue Recognition: (continued)

Topic 606 was adopted by The Tech as of July 1, 2019 using a retrospective transition approach. The adoption of Topic 606 did not have a material impact on The Tech's financial statements. However, Topic 606 did result in changes to The Tech's accounting policies for revenue recognition.

The Tech determines revenue recognition for its revenue-producing activities under Topic 606 through the following steps:

- Identification of the contract or agreement with a customer or grantor
- Identification of the performance obligations in the contract or agreement
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, The Tech satisfies a performance obligation

Results for the year ended June 30, 2019 have not been adjusted and continue to be reported in accordance with ASC Topic 605, *Revenue Recognition*. The Tech recognized revenue under Topic 605 when there was persuasive evidence of an arrangement existed, the services have been delivered, fees were fixed or determinable, collection was probable and when all other significant obligations had been fulfilled.

Admission fees are recognized as revenue when received. Membership dues are deferred upon receipt and recognized ratably over the membership period, generally for one to two years, following the period of receipt. Amounts received for services or events not yet provided are recorded as deferred revenue, a contract liability, and are recognized in the period in which the service is provided or the event takes place.

In-Kind Donations:

The Tech records various types of in-kind donations including professional services, tangible assets, use of tangible assets and marketable securities. Donated marketable securities are immediately sold and The Tech accounts for the proceeds as contributed support on the Statements of Activities. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets, or the use thereof, are recognized when promised or received, whichever is earlier. The amounts reflected in the accompanying financial statements as in-kind donations are offset by like amounts of expenses or, in the case of long-term assets, over the period benefited.

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Notes to Financial Statements

2. Significant Accounting Policies (continued)

In-Kind Donations: (continued)

In fiscal 2020, The Tech recognized in-kind contribution revenue of \$24,921,000 (\$1,872,000 in fiscal 2019). Expenses related to these in-kind contributions in fiscal 2020 are recognized in the Statements of Functional Expenses as in-kind contributions of \$565,000 and The Tech for Global Good expense of \$19,000 (\$534,000 and \$28,000, respectively, and \$84,000 for The Tech Challenge in fiscal 2019). The remainder in fiscal 2020 represents an increase of \$23,315,000 in beneficial interest in use of facilities, \$188,000 in the release of beneficial interest in use of facility and \$834,000 donated property, exhibits and equipment and other assets.

The Tech also receives a significant amount of contributed time related to program services and fundraising, which does not meet the recognition criteria described above. Accordingly, the value of this important contributed time has not been determined and is not reflected in the accompanying financial statements.

Investments and Fair Value Measurement:

The Tech accounts for investments under FASB ASC Topic 820, *Fair Value Measurement* (Topic 820). The Tech uses a three-level hierarchy under Topic 820 for fair value measurement based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The three-level hierarchy prioritizes within the measurement of fair value, the use of market-based information over entity-specific information. Fair value focuses on an exit price and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs or methodology used for valuing financial assets and liabilities are not necessarily an indication of the risk associated with those assets and liabilities.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13). The standard eliminates certain disclosures and modifies others about recurring and nonrecurring fair value measurements that are required by Topic 820. The Tech early adopted ASU 2018-13 on a retrospective basis as of June 1, 2019. The adoption of ASU 2018-13 resulted in the removal or modification of certain fair value measurement disclosures presented in the financial statements.

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Notes to Financial Statements

2. Significant Accounting Policies (continued)

Investments and Fair Value Measurement: (continued)

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

- Level I:** Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level II:** Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level III:** Inputs to the valuation methodology significant to the fair value measurement, are unobservable.

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Certificates of deposit that have original maturities of greater than three months are reported at fair value based on cost and accumulated interest, which approximates fair value. Money market funds are recorded at fair value based on quoted market prices in active markets. These investments are classified under Level I of the three-level hierarchy. The Tech's fixed income investments are valued based on quoted market prices of similar assets are classified under Level II of the three-level hierarchy. The Tech's non-marketable investments in venture capital funds are classified under Level III of the three-level hierarchy. The Tech's pledges receivable not due within one year are recorded at fair value, estimated by discounting future cash flows to present value using a discount rate at the date of the financial statements, and are classified under Level II of the three-level hierarchy. At June 30, 2020 and 2019, The Tech applied a discount rate of 2.25% to long-term pledges receivable.

Under Topic 820, The Tech's investments in equity funds and fixed income funds valued at fair value using the net asset value (NAV) per share of the entity's underlying assets as a practical expedient and are not categorized within the fair value hierarchy under GAAP. The value of these non-marketable investments presented in the accompanying financial statements are not necessarily indicative of amounts The Tech could realize upon liquidation of the funds and the difference between the recorded value and the amount realized could be material to the financial statements.

Level III Valuation Techniques:

The fair value of investments in venture capital funds is based on The Tech's percentage interest owned in each fund. The fund managers use various valuation approaches, including market and income approaches, to determine fair value of the venture capital funds. Inputs that are used in determining fair value of an investment may include price information, credit data, volatility statistics and other factors. In addition, inputs can be either observable or unobservable.

The Tech Interactive

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Investments and Fair Value of Measurement: (continued)

Level III Valuation Techniques: (continued)

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

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

NAV Practical Expedient Valuation Techniques

The NAVs of investments are based on valuations provided by the general partners and managing members. The Tech reviews and evaluates the values provided by the general partners and managing members and agrees with the valuation methods and assumptions used in determining the fair value of these private equity investments. The value of these investments presented in the accompanying financial statements are not necessarily indicative of amounts The Tech could realize upon liquidation of the investments. Because of the inherent uncertainty of valuations, the estimated fair value may differ from the value that would have been used had a ready market for the investments existed, and the difference between the recorded value and the amount realized could be material to the financial statements.

The Tech Interactive

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Concentrations of Credit Risk:

Financial instruments which potentially subject The Tech to concentration of credit risk consist primarily of cash and cash equivalents, investments, pledges receivable and other receivables. The Tech considers all short-term highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents. The Tech's cash and cash equivalent deposits held at one commercial bank and its money market funds held at a major financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. The Tech's investments in certificates of deposit, fixed income funds and equity funds are held at several major financial institutions and are insured by the Securities Investor Protection Act (SIPA) up to \$500,000, of which \$250,000 is for cash and cash equivalent deposits per institution. Each of the Tech's individual certificates of deposit is held with a separate financial institution, at a value below the FDIC or SIPA insured amount. Investments in venture capital funds are not insured. The Tech's investments are managed by The Tech's Board of Directors.

Receivables are generally from local donors and other sources and these balances are evaluated for collectability by The Tech on a regular basis. Management makes judgments as to the ability to collect the outstanding receivables and provides allowances for potential credit losses as needed. Credit losses have historically been within management's expectation.

Property, Exhibits and Equipment:

The Tech capitalizes property, exhibits and equipment acquisitions over \$3,000. Purchased or constructed property, exhibits and equipment are recorded at cost. Donated property, exhibits and equipment are recorded at their estimated fair value. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets ranging from three to 20 years. Construction in progress is not depreciated until placed into service. Leasehold improvements are amortized over the shorter of the asset's estimated useful life or the remaining lease term.

Gifts of property, exhibits and equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The Tech Interactive

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Accounting for Impairment of Long-Lived Assets:

The Tech reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. When it is determined the carrying value of long-lived assets may not be recoverable, The Tech measures any impairment based on projected discounted cash flows using a discount rate commensurate with the risk inherent in its current operating model. To date, The Tech has not recorded any impairment of its long-lived assets.

Investment Income:

Investment income represents interest and dividends earned and net investment gains. Investment income is recorded on the accrual basis and dividends are recorded at the ex-dividend date. Realized gains and losses on investments represent the difference between the original cost of the investments and the price on the date of sale or disposal. The difference between the original cost and the estimated current fair value of investments owned at the end of the period represents cumulative unrealized gain or loss. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the Statement of Activities in the period that such fluctuations occur and are included in investment income or loss.

Functional Expenses:

The costs of providing The Tech's various programs and services have been summarized on a functional basis in the Statements of Functional Expenses. Directly identifiable expenses are charged to the related program or service benefited. Indirect expenses are generally allocated based on operating expenses incurred and estimates of time and effort. Indirect expenses, such as occupancy and insurance are allocated based on employee headcount. Donated rent is allocated based on the square footage used by each program or service benefited.

Advertising:

Costs associated with advertising are expensed when incurred. Advertising expenses, including in-kind services, were \$316,000 in fiscal 2020 (\$661,000 in fiscal 2019).

Income Taxes:

The Tech has been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) of the Code, and from California income taxes under Section 23701(d) of the California Revenue and Taxation Code.

The Tech Interactive

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Income Taxes: (continued)

Although an organization is recognized as tax exempt, it is still liable for tax on its unrelated business taxable income (UBTI). The Tech believes it does not have UBTI that will result in an income tax liability at June 30, 2020 and 2019.

The Tech applies the provisions set forth in FASB ASC Topic 740, *Income Taxes*, to account for the uncertainty in income taxes. The Tech has assessed all income tax positions taken where the statute of limitation remains open. The Tech believes that its tax filing positions will be sustained upon tax examination; therefore, no liability for unrecognized income tax benefits has been recorded at June 30, 2020 and 2019. The Tech does not anticipate any significant increases or decreases to unrecognized income tax benefits during the next twelve months.

The Tech's federal exempt organization business income tax return (Form 990) is subject to examination, generally for three years, after it is filed with the Internal Revenue Service. The Tech's California exempt organization business income tax return is subject to examination, generally for four years, after it is filed with the Franchise Tax Board.

Reclassifications:

Certain prior year amounts within the financial statements have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements Not Yet Effective:

Leases

In February 2016, the FASB issued FASB ASC Topic 842, *Leases* (Topic 842). This standard requires all entities that lease assets under leases with terms of more than twelve months to capitalize the assets and related lease liabilities on the Statement of Financial Position.

Topic 842 is effective for The Tech as of July 1, 2022 and requires the use of a modified retrospective transition approach for its adoption. The Tech is currently evaluating the effect Topic 842 will have on its financial statements and related disclosures. Management expects the assets leased under operating leases, similar to the leases disclosed in Note 9 to the financial statements, will be capitalized together with the related lease obligations on the Statement of Financial Position upon the adoption of Topic 842.

The Tech Interactive

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Effective: (continued)

Presentation of Nonfinancial Assets

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-For Profit Entities for Contributed Nonfinancial Assets* (ASU 2020-07).

ASU 2020-07 was issued to increase the transparency for measuring and reporting contributed nonfinancial assets. The new standard will be effective for The Tech as of July 1, 2021 and is to be applied on a retrospective basis for its adoption. Early adoption of the standard is permitted. The Tech is currently evaluating the effect ASU 2020-07 will have on its financial statements and related disclosures.

ASU 2020-07 will require contributions from donors to be reported on the statement of financial position as:

- Contributions of cash and financial assets
- Contributions of nonfinancial assets

Not-for-profit entities will be required to provide details as to the:

- qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period
- types of nonfinancial assets received that reconcile to the statement of activities
- for each type of asset, the entity's accounting policy for monetizing the assets instead of utilizing the assets
- a description of any donor-imposed restrictions on the assets
- a description of the valuation techniques and inputs used to arrive at a fair value measurement for the donated assets, in accordance with Topic 820, at initial recognition
- the principal market used to arrive at fair value measure if it is a market the donor has prohibited selling or using the contributed nonfinancial assets

The Tech Interactive
Notes to Financial Statements

3. Liquidity and Availability of Resources

The table below represents assets available for general expenditures within one year at June 30, 2020:

Cash and cash equivalents	\$ 3,190,637
Grants and other receivables	755,316
Pledges receivable, net	4,457,759
Investments	<u>34,863,404</u>
Total financial assets	<u>43,267,116</u>

Less amounts not available to be used within one year:

Funds received from donors restricted for programs (Note 11)	10,753,651
Receivables due in one to five years, net of discount of 2.5% (Note 4)	3,609,659
Receivables in less than one year restricted for purpose, net of allowance	1,567,811
Undesignated endowment income not eligible for appropriation (Note 11)	4,444,112
Investments not redeemable in less than one year (Note 5)	3,082,679
Investments in donor restricted endowments held in perpetuity (Note 11)	<u>16,715,706</u>
Financial assets not available to be used within one year	<u>40,173,618</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,093,498</u>

The table below represents assets available for general expenditures within one year at June 30, 2019:

Cash and cash equivalents	\$ 1,587,276
Grants and other receivables	691,271
Pledges receivable, net	3,141,144
Investments	<u>29,710,399</u>
Total financial assets	<u>35,130,090</u>

Less amounts not available to be used within one year:

Funds received from donors restricted for programs (Note 11)	7,943,158
Receivables due in one to five years, net of discount (Note 4)	2,036,365
Receivables in less than one year restricted for purpose, net of allowance	1,454,632
Undesignated endowment income not eligible for appropriation (Note 11)	4,367,352
Investments not redeemable in less than one year (Note 5)	2,518,346
Investments in donor restricted endowments held in perpetuity (Note 11)	<u>16,715,706</u>
Financial assets not available to be used within one year	<u>35,035,559</u>
Financial assets available to meet general expenditures within one year	<u>\$ 94,531</u>

The Tech Interactive
Notes to Financial Statements

3. Liquidity and Availability of Resources (continued)

The Tech monitors liquidity and the availability of its resources on an ongoing basis to ensure adherence to donor restrictions, contractual commitments and legal requirements for the use of funds while also maximizing the return on investments.

The Tech considers funds with donor restrictions of time periods greater than one year and to purpose to be unavailable for use in general expenditures. Other contractual commitments may require The Tech's assets to be maintained for a period of time before becoming accessible through redemption or withdrawal. Such assets bound by contractual commitments are not available for general expenditures within one year.

The Tech has donor-restricted assets held within an endowment fund (Note 13) that are also restricted to use based on state and federal law. Up to 5% of the endowment assets average fair value over a three-year moving period may be appropriated and used for general expenditures within twelve months. The Tech's Board of Directors (Board) will appropriate such resources when and if considered necessary.

4. Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	<u>2020</u>	<u>2019</u>
The Tech 3.0 Campaign	\$ 2,083,000	\$ 2,910,000
Other	<u>2,374,759</u>	<u>231,144</u>
Net pledges receivable	<u>\$ 4,457,759</u>	<u>\$ 3,141,144</u>
Receivable in less than one year	\$ 848,100	\$ 1,129,779
Receivable in one to five years	3,825,000	1,990,000
Greater than five years	<u>-</u>	<u>200,000</u>
	4,673,100	3,319,779
Less: allowance for doubtful accounts	-	(25,000)
Less: unamortized discount to present value	<u>(215,341)</u>	<u>(153,635)</u>
Net pledges receivable	<u>\$ 4,457,759</u>	<u>\$ 3,141,144</u>

The Tech Interactive
Notes to Financial Statements

4. Pledges Receivable (continued)

The amounts raised will be used to fund various programs and functions of The Tech, including construction and ongoing staffing and maintenance of new exhibits. Through June 30, 2020, The Tech has raised \$57,568,000 from The Tech 3.0 Campaign, of which \$55,485,000 had been received.

5. Investments

The following table presents the financial instruments carried at fair value as of June 30, 2020:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>NAV</u>	<u>Total</u>
Certificates of deposit	\$ 10,410,979	\$ -	\$ -	\$ -	\$ 10,410,979
Money market funds	3,356,764	-	-	-	3,356,764
Fixed income fund	-	2,709,447	-	2,731,570	5,441,017
Venture capital funds	-	-	3,082,679	-	3,082,679
Equity fund	-	-	-	12,571,965	12,571,965
Total	<u>\$ 13,767,743</u>	<u>\$ 2,709,447</u>	<u>\$ 3,082,679</u>	<u>\$ 15,303,535</u>	<u>\$ 34,863,404</u>

The following table presents the financial instruments carried at fair value as of June 30, 2019:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>NAV</u>	<u>Total</u>
Certificates of deposit	\$ 5,229,087	\$ -	\$ -	\$ -	\$ 5,229,087
Money market funds	3,527,986	-	-	-	3,527,986
Fixed income fund	-	2,409,998	-	2,444,161	4,854,159
Venture capital funds	-	-	2,518,346	-	2,518,346
Equity fund	-	-	-	13,580,821	13,580,821
Total	<u>\$ 8,757,073</u>	<u>\$ 2,409,998</u>	<u>\$ 2,518,346</u>	<u>\$ 16,024,982</u>	<u>\$ 29,710,399</u>

There were purchased investments of \$307,500 classified by The Tech within Level III of the fair value hierarchy in fiscal 2020 (\$322,500 in fiscal 2019). There were no transfers between the levels of the fair value hierarchy in fiscal 2020 or 2019.

The Tech Interactive
Notes to Financial Statements

5. Investments (continued)

Level III Investments:

The following table summarizes the quantitative inputs and assumptions used, and the remaining capital commitments and termination dates for investments categorized as Level III under the fair value hierarchy:

	Fair Value at <u>June 30, 2020</u>	Fair Value at <u>June 30, 2019</u>	Remaining Commitment at <u>June 30, 2020</u>	Term Date**
Legacy Venture V, LLC	\$ 636,936	\$ 778,030	\$ 15,000	December 31, 2020
Legacy Venture VII, LLC	1,481,342	1,144,324	15,000	December 31, 2026
Legacy Venture VIII, LLC	743,727	487,859	165,000	December 31, 2028
Legacy Venture IX, LLC	174,164	40,091	570,000	December 31, 2030
University Technology Ventures, L.P.	<u>46,510</u>	<u>68,042</u>	<u>31,328</u>	December 31, 2019*
Total	<u>\$ 3,082,679</u>	<u>\$ 2,518,346</u>	<u>\$ 796,328</u>	

* The investment fund is in liquidation as of June 30, 2020.

** The investment fund continues in existence until the term end date, or until the earlier termination or extension of the entity in accordance with provisions of the limited partnership agreement or operating agreement. Redemption not permitted during the life of the entity without prior written consent of the general partner or managing member or upon an affirmative vote by members, within the terms of the limited partnership agreement or operating agreement.

The investments categorized as Level III under the fair value hierarchy are valued using a market approach technique. Unobservable inputs to the valuation include an illiquidity discount.

Investments Valued Using NAV:

Investments valued using NAV as a practical expedient are as follows:

	Fair Value at <u>June 30, 2020</u>	Fair Value at <u>June 30, 2019</u>	Redemption Frequency	Redemption Notice
Equity funds	\$ 12,571,965	\$ 13,580,821	Daily - Annually	1 - 90 days
Fixed income funds	<u>2,731,570</u>	<u>2,444,161</u>	Daily - Monthly	1 - 5 days
Total	<u>\$ 15,303,535</u>	<u>\$ 16,024,982</u>		

The equity funds include investments in actively managed funds that invest in stocks or other securities issued by companies in domestic and foreign markets. The fixed income funds include investments in actively managed funds that invest in government, corporate or sovereign bonds. Investments are held within a commingled trust.

The Tech Interactive
Notes to Financial Statements

6. Property, Exhibits and Equipment

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

	<u>2020</u>	<u>2019</u>
Exhibits	\$ 15,808,597	\$ 15,808,597
Building and leasehold improvements	11,905,988	11,905,988
Equipment	7,649,127	6,815,535
Construction in progress	2,837,504	2,358,183
Computer software	<u>11,000</u>	<u>11,000</u>
	38,212,216	36,899,303
Accumulated depreciation and amortization	<u>(28,969,469)</u>	<u>(25,910,462)</u>
Property, exhibits and equipment, net	<u>\$ 9,242,747</u>	<u>\$ 10,988,841</u>

Museum exhibits are generally constructed by The Tech and consist of materials, supplies, salaries and related benefits. Exhibits under construction are recorded as construction in progress, which will be recorded as exhibits and depreciated when placed in service. Estimated costs to complete the construction in process at June 30, 2020 were \$783,000 of which \$783,000 will be incurred in fiscal 2021.

7. Beneficial Interest in Use of Facilities

In fiscal 2020, The Tech entered into a 55-year agreement with the City of San Jose to lease its primary facility and an adjacent exhibition hall for \$1 per year. The original 1998 lease agreement for the primary facility was terminated as the new agreement became effective and the beneficial interest in use of the facility was reversed. The Tech has recorded an asset to reflect a beneficial interest in the use of the facilities, representing the estimated fair value of the lease at its inception. The asset is being amortized over the lease term to revenue as donated use of facilities.

The beneficial interest in the use of facility is as follows at June 30:

	<u>2020</u>	<u>2019</u>
Total benefit in interest in use of facilities	\$ 75,816,000	\$ 48,438,000
Less discount to net present value (2.5% in fiscal 2020; 6% in fiscal 2019)	<u>(33,424,678)</u>	<u>(28,173,796)</u>
Net beneficial interest in use of facilities	<u>\$ 42,391,322</u>	<u>\$ 20,264,204</u>

The Tech Interactive
Notes to Financial Statements

7. Beneficial Interest in Use of Facilities (continued)

The following amounts have been recognized in the Statements of Activities in connection with the beneficial interest in use of facilities for fiscal:

	<u>2020</u>	<u>2019</u>
Rent expense	\$ 1,404,000	\$ 1,404,000
Amortization of discount	<u>(1,215,852)</u>	<u>(1,226,502)</u>
Net decrease in temporarily restricted net assets	<u>\$ 188,148</u>	<u>\$ 177,498</u>

In fiscal 2018, the Tech entered into an agreement to lease additional space during fiscal 2019 that increased the beneficial interest in use of facilities by \$322,620. This additional benefit was amortized in 2019 and recorded as donated rent.

8. Borrowings

Line of Credit

The Tech has a \$2,000,000 line of credit with a bank that matures in January 2021. Borrowings under the agreement bear interest at the bank's prime rate plus 1% per annum (4.25% at June 30, 2020) and are unsecured. Interest expense of \$20,000 was incurred in fiscal 2020 under the agreement. As of June 30, 2020, principal of \$2,000,000 was outstanding on the line (none at June 30, 2019).

PPP Loan

On April 15, 2020, The Tech entered into a promissory note (the Note) evidencing an unsecured loan in the amount of \$1,933,780 made to The Tech (the Loan) under the Paycheck Protection Program (the PPP). The PPP was established under the Coronavirus Aid, Relief and Economic Security Act (the CARES Act) and is administered by the U.S. Small Business Administration (the SBA). The Loan to The Tech was made through Bank of America. Subject to the terms of the Note, the Loan bears interest at a fixed rate of one percent (1%) per annum, with the first 6 months of interest deferred. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of loans granted under the PPP, with such forgiveness to be determined, subject to limitations, based on the use of loan proceeds for payment of permitted and eligible payroll costs, mortgage interest, rent and utilities. Interest payable on the Note may be forgiven only if the SBA agrees to pay such interest on the forgiven principal amount of the Note. No assurance is provided that The Tech will obtain forgiveness of the Loan in whole or in part. The Tech will be obligated to repay any portion of the principal amount of the Note that is not forgiven, together with interest accrued and accruing thereon at the rate set forth above, until such unforgiven portion is paid in full. Accrued interest at June 30, 2020 was not material.

The Tech Interactive

Notes to Financial Statements

9. Lease Arrangements

Operating Leases:

The Tech leases a facility in San Jose, California under a non-cancelable operating lease agreement, that was amended in in fiscal 2019 to extend the lease term through December 2023. The facility rent expense was \$66,000 in fiscal 2020 (\$53,000 in fiscal 2019).

The Tech leases an exhibit (Body Worlds Decoded) under a non-cancelable operating lease agreement, which expires in June 2027. The exhibit rent expense was \$395,000 in fiscal 2020 and 2019.

Future minimum lease payments under these operating leases are as follows:

Years ending June 30,	
2021	\$ 458,000
2022	461,000
2023	465,000
2024	431,000
2025	395,000
Thereafter	<u>756,000</u>
	<u>\$ 2,966,000</u>

Capital Leases:

In 2014, The Tech purchased \$36,000 of equipment under a capital lease arrangement. The lease required monthly principal and interest payments, with interest at 3% per annum, through June 2019. In July 2018, The Tech purchased an additional \$11,000 of equipment under a capital lease agreement with no interest payments through July 2021. The net book value of the equipment financed under the capital lease was \$4,100 at June 30, 2020 (\$9,000 at June 30, 2019).

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

Years ending June 30,	
2021	\$ 3,800
2022	<u>300</u>
	<u>\$ 4,100</u>

The Tech Interactive
Notes to Financial Statements

10. Commitments and Contingencies

In fiscal 2018, The Tech purchased a laser dome theater system for \$1,600,000 for the development and operation of a state of the art IMAX theater, which was recorded as equipment at June 30, 2020 and 2019. The purchase agreement allows The Tech to operate the theater under a ten-year license agreement with IMAX and provides The Tech an option to renew the license for an additional five years. The option is contingent on the payment of the amount IMAX estimates it would incur to refurbish and upgrade the theater system to the then current IMAX technology. The agreement also includes an annual maintenance fee of \$55,000 per year. The Tech is also subject to additional payments based on 5% of annual gross IMAX revenues over \$1,000,000. The Tech did not incur any additional rent in fiscal 2020 or 2019.

11. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted by donors by time or for the purposes described below. Net assets with donor restrictions consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Beneficial interest in use of facilities	\$ 42,391,322	\$ 20,264,204
Operations	10,753,651	7,943,158
Receivables	5,177,470	3,490,997
Undesignated endowment income	4,778,615	4,597,213
Investments held in perpetuity	<u>16,715,706</u>	<u>16,715,706</u>
	<u>\$ 79,816,764</u>	<u>\$ 53,011,278</u>

12. Net Assets Released from Restrictions

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

	<u>2020</u>	<u>2019</u>
Operations	\$ 8,997,323	\$ 9,821,844
Designated endowment income	762,992	752,012
Beneficial interest in use of facility	<u>1,215,812</u>	<u>500,118</u>
	<u>\$ 10,976,127</u>	<u>\$ 11,073,974</u>

The Tech Interactive
Notes to Financial Statements

13. Endowment

The Tech’s endowment consists of contributions receivable or received, which are permanently restricted in perpetuity by the donors. As required under GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Tech has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original donor gift restricted in perpetuity, absent explicit donor stipulations to the contrary. As a result of this interpretation, The Tech classifies net assets restricted in perpetuity as: (a) the original value of gifts donated to the endowment; (b) the original value of subsequent gifts to the endowment; and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment. The remaining portion of the donor-restricted endowment that is not restricted in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by The Tech in a manner consistent with the standard of prudence prescribed by SPMIFA. Once appropriated, these amounts are classified as net assets without donor restrictions.

In accordance with SPMIFA, The Tech considers the following factors in appropriating or accumulating donor-restricted endowment assets:

- (1) The duration and preservation of the fund;
- (2) The purposes of The Tech and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of The Tech;
- (7) The Tech’s investment policies.

Endowment assets consist of the following at June 30, 2020:

Endowment Funds Restricted in Perpetuity	\$ 16,715,706
Undesignated Endowment Income	<u>4,778,615</u>
	<u>\$ 21,494,321</u>

Endowment assets consist of the following at June 30, 2019:

Endowment Funds Restricted in Perpetuity	\$ 16,715,706
Undesignated Endowment Income	<u>4,597,213</u>
	<u>\$ 21,312,919</u>

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Notes to Financial Statements

13. Endowment (continued)

Changes in endowment assets for fiscal 2020 are as follows:

Endowment Assets, beginning of year	\$ 21,312,919
Net appreciation	947,394
Appropriated for expenditure	<u>(762,992)</u>
Endowment Assets, end of year	<u>\$ 21,494,321</u>

Changes in endowment assets for fiscal 2019 are as follows:

Endowment Assets, beginning of year	\$ 20,122,645
Net appreciation	1,942,286
Appropriated for expenditure	<u>(752,012)</u>
Endowment Assets, end of year	<u>\$ 21,312,919</u>

The Tech has adopted an investment policy for endowment assets with the primary objectives to preserve the real purchasing power of the principal and provide a stable source of perpetual financial support. Under this policy, the investments are diversified to help minimize the overall risk of the portfolio. On an annualized, net-of-fee basis, the total return of the portfolio will be expected to equal or exceed the spending rate (targeted at a minimum of 5% per annum) plus inflation based on the consumer price index over a rolling five-year period. Additionally, the returns should show favorable, relative performance characteristics.

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

14. Related Parties

The Tech's Board is active in oversight of fundraising events, activities and in making private contributions. Contributions received from the Board or from companies with which Board members are affiliated with were \$4,056,000 in fiscal 2020 (\$2,341,000 in fiscal 2019). Amounts due from the Board and affiliates are \$98,000 at June 30, 2020 (\$154,000 at June 30, 2019).

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Notes to Financial Statements

15. Employee Benefit Plan

The Tech has a defined contribution retirement plan covering substantially all employees. The purpose of the plan is to provide retirement benefits for participating employees on a tax-deferred basis. The Tech did not make contributions to the plan in fiscal 2020 or 2019.

16. Subsequent Events

The Tech's Board (investment and executive committee) has authorized the spending rate to be increased to 7% of the endowment assets average fair value over a three-year moving period may be appropriated and used for general expenditures within twelve months for fiscal 2021 and 2022.

The global outbreak of the novel coronavirus in 2020 has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The outbreak is already having, and will likely continue to have, a material adverse impact on economic and market conditions. The uncertainties arising from the virus may present business risks with respect to The Tech and its future financial results. The Tech was required to close on March 13, 2020 as a result of the pandemic and remains closed as of the date the financial statements were approved to be issued. Certain program-related costs such as salaries were able to continue with the funding of the PPP loan program; however, other program-related costs such as supplies and services were halted due to the closure. The Tech also had a large increase in administrative costs resulting from the development of the Parkside Hall project, which continues in spite of the closure. These factors have contributed to reduce the Tech's program ratio below the proportions typically incurred.

Subsequent events have been evaluated through the date of the independent auditors' report, which is the date the financial statements were approved by The Tech and available to be issued.