



The Tech Interactive

(Formerly, The Tech Museum of Innovation)

Financial Statements

June 30, 2019 and 2018

Board of Directors
The Tech Interactive
San Jose, California

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of The Tech Interactive (formerly, The Tech Museum of Innovation), which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Certified
Public
Accountants



Palo Alto
San Francisco
San Jose
St. Helena

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, 2019 and 2018, 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, Rimmerman & Co. LLP

San Jose, California
November 22, 2019

The Tech Interactive
Statements of Financial Position

	June 30, 2019			June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS						
Cash and Cash Equivalents	\$ 1,032,587	\$ 554,689	\$ 1,587,276	\$ 1,561,711	\$ 4,852,336	\$ 6,414,047
Grants and Other Receivables	313,867	377,404	691,271	818,784	809,480	1,628,264
Pledges Receivable, net	27,551	3,113,593	3,141,144	161,525	4,338,111	4,499,636
Prepaid Expenses and Other Assets	286,276	-	286,276	365,259	-	365,259
Investments	1,009,011	28,701,388	29,710,399	2,184,640	26,121,979	28,306,619
Property, Exhibits and Equipment, net	10,988,841	-	10,988,841	11,793,363	-	11,793,363
Beneficial Interest in Use of Facilities, net	-	20,264,204	20,264,204	-	20,764,322	20,764,322
Total assets	<u>\$ 13,658,133</u>	<u>\$ 53,011,278</u>	<u>\$ 66,669,411</u>	<u>\$ 16,885,282</u>	<u>\$ 56,886,228</u>	<u>\$ 73,771,510</u>
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	\$ 438,592	\$ -	\$ 438,592	\$ 1,552,331	\$ -	\$ 1,552,331
Accrued expenses	972,372	-	972,372	589,390	-	589,390
Deferred revenue	603,172	-	603,172	591,038	-	591,038
Capital lease obligation	7,948	-	7,948	8,817	-	8,817
Total liabilities	<u>2,022,084</u>	<u>-</u>	<u>2,022,084</u>	<u>2,741,576</u>	<u>-</u>	<u>2,741,576</u>
Commitments (Notes 5 and 9)						
Net Assets						
Without donor restrictions	11,636,049	-	11,636,049	14,143,706	-	14,143,706
With donor restrictions	-	53,011,278	53,011,278	-	56,886,228	56,886,228
Total net assets	<u>11,636,049</u>	<u>53,011,278</u>	<u>64,647,327</u>	<u>14,143,706</u>	<u>56,886,228</u>	<u>71,029,934</u>
Total liabilities and net assets	<u>\$ 13,658,133</u>	<u>\$ 53,011,278</u>	<u>\$ 66,669,411</u>	<u>\$ 16,885,282</u>	<u>\$ 56,886,228</u>	<u>\$ 73,771,510</u>

See Notes to Financial Statements

The Tech Interactive
Statements of Activities
Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support						
Public support	\$ 1,818,645	\$ -	\$ 1,818,645	\$ 1,132,637	\$ -	\$ 1,132,637
Contributed support	1,021,835	5,299,914	6,321,749	1,755,615	17,328,024	19,083,639
In-kind contributions	645,739	-	645,739	1,287,004	322,620	1,609,624
Donated use of facility	1,226,502	-	1,226,502	1,236,549	-	1,236,549
Admissions and fees	3,675,534	-	3,675,534	3,871,341	-	3,871,341
Investment income, net	206,745	1,899,110	2,105,855	46,728	1,399,145	1,445,873
Rental and other income	1,879,534	-	1,879,534	1,764,113	-	1,764,113
Net assets released from restrictions	11,073,974	(11,073,974)	-	12,725,730	(12,725,730)	-
Total revenues and other support	21,548,508	(3,874,950)	17,673,558	23,819,717	6,324,059	30,143,776
Expenses						
Program services						
Exhibits, programs and experiences	12,863,012	-	12,863,012	13,248,127	-	13,248,127
Education	2,483,821	-	2,483,821	2,874,956	-	2,874,956
Visitor services	2,715,643	-	2,715,643	2,820,320	-	2,820,320
Support services						
Fundraising and membership	2,067,105	-	2,067,105	2,139,451	-	2,139,451
General and administrative						
Marketing	1,810,537	-	1,810,537	1,224,291	-	1,224,291
Administration	2,116,047	-	2,116,047	2,216,095	-	2,216,095
Total expenses	24,056,165	-	24,056,165	24,523,240	-	24,523,240
Change in Net Assets	(2,507,657)	(3,874,950)	(6,382,607)	(703,523)	6,324,059	5,620,536
Net Assets, beginning of year	14,143,706	56,886,228	71,029,934	14,847,229	50,562,169	65,409,398
Net Assets, end of year	\$ 11,636,049	\$ 53,011,278	\$ 64,647,327	\$ 14,143,706	\$ 56,886,228	\$ 71,029,934

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	268,892	185,909	18,577	473,378	31,500	347,942	368,258	747,700	1,221,078
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
Fees and Services	87,332	85,049	35,280	207,661	37,931	92,998	121,147	252,076	459,737
Royalties	254,703	-	-	254,703	-	-	-	-	254,703
Bankcard Fees	-	-	126,692	126,692	-	-	-	-	126,692
In-Kind Contributions	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
Statement of Functional Expenses
Year Ended June 30, 2018

	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	\$ 3,494,549	\$ 1,134,670	\$ 1,475,159	\$ 6,104,378	\$ 937,306	\$ 606,608	\$ 1,014,700	\$ 2,558,614	\$ 8,662,992
Payroll Taxes	244,441	78,230	104,749	427,420	66,973	42,389	71,056	180,418	607,838
Benefits	308,673	93,760	138,000	540,433	81,440	52,297	84,375	218,112	758,545
Professional Fees	320,061	112,711	6,620	439,392	35,000	197,253	487,723	719,976	1,159,368
Materials and Supplies	715,846	73,318	49,461	838,625	37,736	3,360	46,534	87,630	926,255
Advertising and Public Relations	604,135	15,676	27,119	646,930	26,174	184,158	10,120	220,452	867,382
Fees and Services	195,827	67,505	45,694	309,026	9,265	26,112	88,322	123,699	432,725
Royalties	369,815	-	-	369,815	-	-	-	-	369,815
Bankcard Fees	-	-	138,071	138,071	-	-	87	87	138,158
In-Kind Contributions	443,488	152,237	15,949	611,674	7,733	-	127,260	134,993	746,667
Travel and Transportation	56,114	18,239	2,233	76,586	13,181	3,051	25,251	41,483	118,069
Occupancy	864,036	163,807	593,579	1,621,422	120,984	69,867	100,060	290,911	1,912,333
Building and Equipment Rental	655,212	35,918	648	691,778	5,211	-	2,041	7,252	699,030
Depreciation and Amortization	3,333,859	66,635	38,322	3,438,816	19,582	14,647	18,287	52,516	3,491,332
Donated Rent	1,224,049	91,359	39,172	1,354,580	37,065	12,355	-	49,420	1,404,000
The Tech for Global Good	312,491	-	-	312,491	588,360	-	-	588,360	900,851
The Tech Challenge and Related Expenses	16,586	740,933	10,355	767,874	31,620	1,563	-	33,183	801,057
Insurance	44,757	10,623	40,108	95,488	8,226	4,798	6,169	19,193	114,681
Other	44,188	19,335	95,081	158,604	113,595	5,833	134,110	253,538	412,142
Total expenses	<u>\$ 13,248,127</u>	<u>\$ 2,874,956</u>	<u>\$ 2,820,320</u>	<u>\$ 18,943,403</u>	<u>\$ 2,139,451</u>	<u>\$ 1,224,291</u>	<u>\$ 2,216,095</u>	<u>\$ 5,579,837</u>	<u>\$ 24,523,240</u>
Percent of Total Expenses	<u>54%</u>	<u>12%</u>	<u>11%</u>	<u>77%</u>	<u>9%</u>	<u>5%</u>	<u>9%</u>	<u>23%</u>	<u>100%</u>

See Notes to Financial Statements

The Tech Interactive
Statements of Cash Flows

	Years Ended June 30,	
	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	\$ (6,382,607)	\$ 5,620,536
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,401,807	3,491,332
In-kind rent expense related to donated use of facility	500,118	167,451
Net realized and unrealized gain on investments	(1,689,163)	(1,183,925)
Change in discount on pledges receivable	(76,667)	49,989
Contributions restricted for long term investment	-	(4,000,000)
In-kind donation of property, exhibits and equipment	-	(145,761)
In-kind donation of other assets	-	(69,922)
In-kind donation of beneficial interest in use of facility	-	(322,620)
Changes in operating assets and liabilities:		
Grants and other receivables	936,993	(823,937)
Pledges receivable	1,435,159	735,966
Prepaid expenses and other assets	78,983	180,557
Accounts payable	(1,638,426)	(359,332)
Accrued expenses	382,982	88,599
Deferred revenue	12,134	69,400
Net cash provided by (used in) operating activities	<u>(3,038,687)</u>	<u>3,498,333</u>
Cash Flows from Investing Activities:		
Net proceeds from sale and distribution of investments	1,018,176	785,329
Purchase of investments	(732,793)	(4,599,799)
Purchase of property, exhibits and equipment	(2,072,598)	(2,305,934)
Net cash used in investing activities	<u>(1,787,215)</u>	<u>(6,120,404)</u>
Cash Flows from Financing Activities:		
Payments on capital lease obligation	(869)	(7,316)
Contributions received for long term investment	-	4,000,000
Net cash provided by (used in) financing activities	<u>(869)</u>	<u>3,992,684</u>
Net increase (decrease) in cash and cash equivalents	(4,826,771)	1,370,613
Cash and Cash Equivalents, beginning of year	6,414,047	5,043,434
Cash and Cash Equivalents, end of year	<u>\$ 1,587,276</u>	<u>\$ 6,414,047</u>
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Amounts payable for construction in progress	<u>\$ 524,687</u>	<u>\$ 1,213,807</u>

See Notes to Financial Statements

The Tech Interactive

Notes to Financial Statements

1. Nature of Activities

In July 2019, The Tech Museum of Innovation changed its name to The Tech Interactive (The Tech). The Tech's mission has remained unchanged and 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, tech industry research 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 32 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, an evolution of The Tech Awards, aims to inspire young people to use technology to solve global challenges by connecting with people doing just that around the world.

The Tech hosts over 400,000 people a year in its galleries and programs and has approximately 7,000-member households.

2. Significant Accounting Policies

Basis of Presentation:

The Tech prepares its financial statements on the accrual basis of accounting under accounting principles generally accepted in the United States of America.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 became effective as of July 1, 2018, at which time The Tech adopted the standard using a retrospective transition approach and has adjusted the presentation of its financial statements as follows:

- Unrestricted net assets have been renamed net assets without donor restrictions.
- Temporarily and permanently restricted net assets have been renamed net assets with donor restrictions
- The financial statements include new disclosures about liquidity and availability of resources (Note 3).

The Tech Interactive

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Basis of Presentation: (continued)

The Tech segregates its assets, liabilities and operations into two categories: with donor restrictions and without donor restrictions. The Tech's net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions consist of net assets for which there are no donor-imposed restrictions, or 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 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.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues, other support and expenses in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition:

The Tech recognizes grants, contributions and unconditional promises to give (pledges) as revenues at their fair value in the period the grantor or donor makes the grant, contribution or pledge that is, in substance, unconditional. Conditional promises to give and support are not recognized until the stated conditions are met. The Tech distinguishes between contributions that increase net assets without donor restrictions and net assets with donor restrictions, with recognition being made of the expiration of donor-imposed restrictions in the period in which the restrictions expire. Grants and contributions to be received after one year are reflected at the present value of estimated future cash flows.

Admissions are recorded 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 classified as deferred revenue and are recognized in the period in which the service is provided, or the event takes place.

The Tech Interactive

Notes to Financial Statements

2. Significant Accounting Policies (continued)

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 contributions are offset by like amounts of expenses or, in the case of long-term assets, over the period benefited.

In fiscal 2019, The Tech recognized in-kind contribution revenue of \$646,000 (\$1,610,000 in fiscal 2018). Expenses related to these in-kind contributions are recognized in the Statements of Functional Expenses as in-kind contributions of \$534,000 (\$747,000 in fiscal 2018), The Tech Challenge expense of \$84,000 (\$318,000 in fiscal 2018) and The Tech for Global Good expense of \$28,000 (\$7,000 in fiscal 2018). The remaining \$538,000 in fiscal 2018 represents donated property, exhibits and equipment and other assets, and an increase in beneficial interest in use of facility.

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.

Cash Equivalents:

The Tech considers all short-term, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments:

Investments in marketable securities and money market funds are reported at fair value based on quoted market prices. Certificates of deposit that have original maturities of greater than three months are included in investments and are reported at fair value based on cost and accumulated interest. Investment income is recorded on the accrual basis and dividends are recorded at the ex-dividend date. Unrealized gains and losses are included in investment income or loss.

The Tech Interactive

Notes to Financial Statements

2. Significant Accounting Policies (continued)

Investments: (continued)

Investments inequity, fixed income and venture capital funds are reported at fair value based on quoted market prices, to the extent these funds are invested in publicly traded investments. The remaining investments are carried at estimated fair value as determined by the investment managers of these funds after giving consideration to operating results, financial condition, recent sales prices of issuers' securities and other pertinent information. These investments are valued based on The Tech's percentage interest owned in each fund. Because of the inherent uncertainty of valuations, however, the estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Fair Value Measurement:

The Tech accounts for investments under FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*. The Tech categorizes its assets and liabilities into a three-level hierarchy 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 Tech defines fair value 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 assets and liabilities are not necessarily an indication of the risk associated with those assets or liabilities.

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 are unobservable and significant to the fair value measurement.

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.

Pledges receivable that are not due within one year are recorded at estimated fair value. The Tech estimates fair value by discounting future cash flows to present value using the discount rate at the date of the financial statements, which considers the risk free-rate and a risk premium based on the donor's credit worthiness. At June 30, 2019 and 2018, The Tech applied a discount rate of 2.25%.

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Notes to Financial Statements

2. Significant Accounting Policies (continued)

Fair Value of Measurement: (continued)

The Tech reports equity funds and fixed income funds for which fair value is measured using net asset value (NAV) per share of the investment's underlying assets as a practical expedient in accordance with Topic 820. Investments valued using NAV are reported outside of the fair value hierarchy.

Concentrations of Credit Risk:

Financial instruments that potentially subject The Tech to concentrations of credit risk consist primarily of cash and cash equivalents, investments, pledges receivable and other receivables. The Tech maintains most of its cash and cash accounts at one commercial bank. The Tech's cash and cash equivalents generally exceed the amount insured by the Federal Deposit Insurance Corporation. The Tech's investment balances exceed the limit insured by the Securities Investor Protection Corporation.

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 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.

Income Taxes:

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

Although an organization is recognized as tax exempt, it is still liable for tax on its unrelated business taxable income (UBTI). The Tech does not believe it has UBTI that will result in an income tax liability at June 30, 2019. The Tech's federal exempt organization business income tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed. The Tech's state exempt organization business income tax returns are subject to examination generally for four years after they are filed.

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 through June 30, 2019. The Tech does not anticipate any significant increases or decreases to unrecognized income tax benefits during the next twelve months.

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 benefitted.

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Notes to Financial Statements

2. Significant Accounting Policies (continued)

Advertising:

Costs associated with advertising are expensed when incurred. Advertising expenses, including in-kind services, were \$661,000 in fiscal 2019 (\$1,016,000 in fiscal 2018).

Recent Accounting Pronouncements Not Yet Effective:

Leases:

In February 2016, the FASB issued FASB ASC Topic 842, *Leases*. 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, 2021 and requires the use of a modified retrospective transition approach for its adoption. 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.

Contributions:

In June 2018, the FASB issued 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. ASU 2018-08 is effective for The Tech as of July 1, 2019. ASU 2018-08 allows a retrospective or modified prospective transition approach for its adoption. The Tech believes ASU 2018-08 will have a minimal impact on its financial statements and related disclosures.

Fair Value Disclosures:

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*. The standard eliminates certain disclosures and modifies others about recurring and nonrecurring fair value measurements that are required by Topic 820. ASU 2018-13 is expected to reduce cost of preparing Topic 820 disclosures, while providing more decision-useful information for financial statements users. The standard is effective for The Tech as of July 1, 2020 and early adoption is permitted. The Tech is currently evaluating the impact of ASU 2018-13 on its fair value measurement disclosures.

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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, 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	8,288,477
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	3,894,269
Investments in donor restricted endowments held in perpetuity	<u>16,715,706</u>
Financial assets not available to be used within one year	<u>32,389,449</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,740,641</u>

Additionally, The Tech has a \$2,000,000 line of credit (Note 8), which is fully available as of June 30, 2019.

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 12) 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.

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Notes to Financial Statements

4. Pledges Receivable

Pledges receivable are summarized as follows at June 30:

	<u>2019</u>	<u>2018</u>
The Tech 3.0 Campaign	\$ 2,910,000	\$ 4,120,000
Other	<u>231,000</u>	<u>380,000</u>
Net pledges receivable	<u>\$ 3,141,000</u>	<u>\$ 4,500,000</u>
Receivable in less than one year	\$ 1,129,000	\$ 1,585,000
Receivable in one to five years	1,990,000	2,570,000
Greater than five years	<u>200,000</u>	<u>600,000</u>
	3,319,000	4,755,000
Less: allowance for doubtful accounts	(24,000)	(25,000)
Less: unamortized discount to present value	<u>(154,000)</u>	<u>(230,000)</u>
Net pledges receivable	<u>\$ 3,141,000</u>	<u>\$ 4,500,000</u>

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, 2019, The Tech has raised \$50,240,000 from The Tech 3.0 Campaign, of which \$47,330,000 had been received.

5. Investments

Investments are valued as follows at June 30:

	<u>2019</u>	<u>2018</u>
NAV	\$ 16,024,982	\$ 15,465,269
Fair value	<u>13,685,417</u>	<u>12,841,350</u>
Total	<u>\$ 29,710,399</u>	<u>\$ 28,306,619</u>

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Notes to Financial Statements

5. Investments (continued)

Fair Value Investments:

The following table presents the investments carried at fair value as of June 30, 2019 under the three-level hierarchy:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</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	-	2,409,998
Venture capital funds	-	-	2,518,346	2,518,346
Total	<u>\$ 8,757,073</u>	<u>\$ 2,409,998</u>	<u>\$ 2,518,346</u>	<u>\$ 13,685,417</u>

The following table presents the investments carried at fair value as of June 30, 2018 under the three-level hierarchy:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Certificates of deposit	\$ 8,489,012	\$ -	\$ -	\$ 8,489,012
Money market funds	180,021	-	-	180,021
Fixed income fund	-	2,231,989	-	2,231,989
Venture capital funds	-	-	1,940,328	1,940,328
Total	<u>\$ 8,669,033</u>	<u>\$ 2,231,989</u>	<u>\$ 1,940,328</u>	<u>\$ 12,841,350</u>

The following table summarizes the quantitative inputs and assumptions used for investments categorized as Level III under the fair value hierarchy as of June 30, 2019 and 2018.

	<u>Valuation Technique</u>	<u>Unobservable Input</u>
Venture capital funds	Market approach	Illiquidity discount

Level III Valuation Techniques:

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.

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5. Investments (continued)

Fair Value Investments: (continued)

Level III Valuation Process:

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.

The following tables include a roll-forward of the amounts in the Statements of Financial Position for fiscal 2019 and 2018 (including the change in fair value) for Level III investments. The gains and losses in the table below may include changes in fair value due in part to unobservable inputs that are a component of the valuation methodology.

Investment activity in The Tech’s Level III investments consists of the following for fiscal 2019:

	July 1, 2018	Contributions	Realized and Unrealized Gain	Investment Loss	Distributions	June 30, 2019
Venture capital funds	\$ 1,940,328	\$ 322,500	\$ 497,807	\$ (49,026)	\$ (193,263)	\$ 2,518,348

Investment activity in The Tech’s Level III investments consists of the following for fiscal 2018:

	July 1, 2017	Contributions	Realized and Unrealized Gain	Investment Loss	Distributions	June 30, 2018
Venture capital funds	\$ 1,467,675	\$ 337,000	\$ 270,732	\$ (13,596)	\$ (121,983)	\$ 1,940,328

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Notes to Financial Statements

5. Investments (continued)

Investments Valued Using NAV:

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

	<u>Fair Value at June 30, 2019</u>	<u>Fair Value at June 30, 2018</u>	<u>Redemption Frequency</u>	<u>Redemption Notice</u>
Equity funds	\$ 13,580,821	\$ 13,185,927	Daily - Annually	1 - 90 days
Fixed income funds	<u>2,444,161</u>	<u>2,279,342</u>	Daily - Monthly	1 - 5 days
Total	<u>\$ 16,024,982</u>	<u>\$ 15,465,269</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.

Remaining Capital Commitments:

The Tech has commitments to invest additional capital to fund certain of its non-marketable investments. At June 30, 2019, The Tech had future capital call commitments of \$1,103,828, which are payable when required by the fund managers.

6. Property, Exhibits and Equipment

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

	<u>2019</u>	<u>2018</u>
Exhibits	\$ 15,808,597	\$ 15,782,146
Building and leasehold improvements	11,905,988	11,814,490
Equipment	6,815,535	4,776,995
Construction in progress	2,358,183	1,917,387
Computer software	<u>11,000</u>	<u>11,000</u>
	36,899,303	34,302,018
Accumulated depreciation and amortization	<u>(25,910,462)</u>	<u>(22,508,655)</u>
Property, exhibits and equipment, net	<u>\$ 10,988,841</u>	<u>\$ 11,793,363</u>

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Notes to Financial Statements

6. Property, Exhibits and Equipment (continued)

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.

7. Beneficial Interest in Use of Facilities

In 1998, The Tech entered into a 55-year agreement with the City of San Jose to lease its primary facility for \$1 per year. The Tech has recorded an asset to reflect a beneficial interest in the use of the facility, 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 facility. The beneficial interest in the use of facility is as follows at June 30:

	<u>2019</u>	<u>2018</u>
Total benefit in interest in use of facility	\$ 48,438,000	\$ 49,842,000
Less discount at 6% to net present value	<u>(28,173,798)</u>	<u>(29,400,298)</u>
Net beneficial interest in use of facility	<u>\$ 20,264,204</u>	<u>\$ 20,441,702</u>

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

	<u>2019</u>	<u>2018</u>
Rent expense	\$ 1,404,000	\$ 1,404,000
Amortization of discount	<u>(1,226,502)</u>	<u>(1,236,549)</u>
Net decrease in temporarily restricted net assets	<u>\$ 177,498</u>	<u>\$ 167,541</u>

In fiscal 2018, The Tech entered into agreement to lease additional space for a four-month period 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. 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 (6.50% at June 30, 2019) and are unsecured. The Tech did not borrow any amounts against the line in 2019 or 2018.

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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 \$53,000 in fiscal 2019 (\$56,000 in fiscal 2018).

The Tech leased a projection and sound system from IMAX Theatres International Limited (IMAX) under a non-cancelable lease (the IMAX Lease) with a term which was to expire in October 2018. Rent expense was \$87,000 in fiscal 2018. The IMAX lease included a maintenance agreement, which required The Tech to incur a minimum amount of maintenance expense annually. Maintenance expense under the lease was \$97,000 in fiscal 2018. The Tech was also subject to additional rent based on 4% of annual gross IMAX revenues over \$3,000,000. The Tech did not incur any additional rent in fiscal 2018.

The IMAX Lease was cancelled in May 2018 when 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 construction in progress at June 30, 2018. 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 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 2019 and 2018.

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Notes to Financial Statements

9. Lease Arrangements (continued)

Operating Leases: (continued)

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

Years ending June 30,	
2020	\$ 455,000
2021	426,000
2022	395,000
2023	395,000
2024	395,000
Thereafter	<u>1,151,000</u>
	<u>\$ 3,217,000</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 \$9,000 at June 30, 2019.

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

Years ending June 30,	
2020	\$ 3,800
2021	3,800
2022	<u>300</u>
	<u>\$ 7,900</u>

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Notes to Financial Statements

10. 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>2019</u>	<u>2018</u>
Beneficial interest in use of facility	\$ 20,264,204	\$ 20,764,322
Operations	7,943,158	10,859,509
Receivables	3,490,997	5,139,752
Undesignated endowment income	4,597,213	3,406,939
Investments held in perpetuity	<u>16,715,706</u>	<u>16,715,706</u>
	<u>\$ 53,011,278</u>	<u>\$ 56,886,228</u>

11. 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:

	<u>2019</u>	<u>2018</u>
Operations	\$ 9,821,844	\$ 11,808,279
Designated endowment income	752,012	750,000
Beneficial interest in use of facility	<u>500,118</u>	<u>167,451</u>
	<u>\$ 11,073,974</u>	<u>\$ 12,725,730</u>

12. Endowment

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

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Notes to Financial Statements

12. Endowment (continued)

The Tech's 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, 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

12. Endowment (continued)

Endowment assets consist of the following at June 30, 2018:

Endowment Funds	
Restricted in perpetuity	\$ 16,715,706
Undesignated Endowment	
Income	<u>3,406,939</u>
	<u>\$ 20,122,645</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>

Changes in endowment assets for fiscal 2018 are as follows:

Endowment Assets,	
beginning of year	\$ 15,617,557
Contribution	4,000,000
Net appreciation	1,255,068
Appropriated for	
expenditure	<u>(750,000)</u>
Endowment Assets,	
end of year	<u>\$ 20,122,645</u>

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Notes to Financial Statements

12. Endowment (continued)

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.

13. 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 \$2,341,000 in fiscal 2019 (\$10,439,000 in fiscal 2018). Amounts due from the Board and affiliates are \$154,000 at June 30, 2019 (\$332,000 at June 30, 2018).

14. 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 2019 or 2018.

15. Subsequent Events

In July 2019, The Tech amended its Articles of Incorporation and Bylaws to change its name from The Tech Museum of Innovation to The Tech Interactive. The change of name was approved and ratified through Board resolution.

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.