



THE TECH MUSEUM OF INNOVATION

FINANCIAL STATEMENTS

DECEMBER 31, 1992 AND 1991

Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS

April 2, 1993

To the Board of Directors of
The Tech Museum of Innovation

In our opinion, the accompanying balance sheets and the related statements of support and revenue, expenses and changes in fund balances and of cash flows present fairly, in all material respects, the financial position of the Tech Museum of Innovation at December 31, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Museum's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

THE TECH MUSEUM OF INNOVATION

BALANCE SHEETS

	December 31, 1992				December 31, 1991					
	Operating Fund	Permanent Facility Funds Unrestricted	Restricted	Capital Fund	Total	Operating Fund	Permanent Facility Funds Unrestricted	Restricted	Capital Fund	Total
ASSETS										
Current assets:										
Cash and cash equivalents	\$ 81,000	\$ 126,000	\$ 59,000	\$ -	\$ 266,000	\$ 1,000	\$ 124,000	\$ 263,000	\$ -	\$ 388,000
Grants receivable, prepaids and other	72,000	8,000	31,000	-	111,000	13,000	58,000	-	-	71,000
Inventory	25,000	-	-	-	25,000	45,000	-	-	-	45,000
Total current assets	<u>178,000</u>	<u>134,000</u>	<u>90,000</u>	<u>-</u>	<u>402,000</u>	<u>59,000</u>	<u>182,000</u>	<u>263,000</u>	<u>-</u>	<u>504,000</u>
Property and equipment:										
Exhibits and furnishings	-	-	-	6,581,000	6,581,000	6,501,000	-	-	-	6,501,000
Furniture, fixtures and equipment	-	-	-	337,000	337,000	88,000	-	149,000	91,000	328,000
Leasehold improvements	-	-	-	1,943,000	1,943,000	1,943,000	-	-	-	1,943,000
Less accumulated depreciation and amortization	-	-	-	(4,039,000)	(4,039,000)	(2,120,000)	-	(149,000)	(60,000)	(2,329,000)
	-	-	-	<u>4,822,000</u>	<u>4,822,000</u>	<u>6,412,000</u>	<u>-</u>	<u>-</u>	<u>31,000</u>	<u>6,443,000</u>
Construction-in-progress	-	65,000	137,000	-	202,000	-	65,000	214,000	-	279,000
Interfund receivable (Note 4)	-	614,000	296,000	1,023,000	1,933,000	-	365,000	159,000	1,019,000	1,543,000
Other assets	-	20,000	-	20,000	40,000	-	20,000	-	20,000	40,000
	<u>\$ 178,000</u>	<u>\$ 833,000</u>	<u>\$ 523,000</u>	<u>\$ 5,865,000</u>	<u>\$ 7,399,000</u>	<u>\$ 6,471,000</u>	<u>\$ 632,000</u>	<u>\$ 636,000</u>	<u>\$ 1,070,000</u>	<u>\$ 8,809,000</u>
LIABILITIES AND FUND BALANCES										
Current liabilities:										
Accounts payable and accrued expenses	\$ 68,000	\$ 60,000	\$ 14,000	\$ -	\$ 142,000	\$ 43,000	\$ 66,000	\$ 39,000	\$ -	\$ 148,000
Deferred restricted contributions	75,000	-	314,000	-	389,000	179,000	-	355,000	-	534,000
Total current liabilities	<u>143,000</u>	<u>60,000</u>	<u>328,000</u>	<u>-</u>	<u>531,000</u>	<u>222,000</u>	<u>66,000</u>	<u>394,000</u>	<u>-</u>	<u>682,000</u>
Interfund payable (Note 4)	614,000	1,319,000	-	-	1,933,000	264,000	1,178,000	101,000	-	1,543,000
Fund balances	(579,000)	(546,000)	195,000	5,865,000	4,935,000	5,985,000	(612,000)	141,000	1,070,000	6,584,000
	<u>\$ 178,000</u>	<u>\$ 833,000</u>	<u>\$ 523,000</u>	<u>\$ 5,865,000</u>	<u>\$ 7,399,000</u>	<u>\$ 6,471,000</u>	<u>\$ 632,000</u>	<u>\$ 636,000</u>	<u>\$ 1,070,000</u>	<u>\$ 8,809,000</u>

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

THE TECH MUSEUM OF INNOVATION

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

	Year ended December 31, 1992		Year ended December 31, 1991						
	Operating Fund	Permanent Facility Funds Unrestricted	Restricted	Capital Fund	Operating Fund	Permanent Facility Funds Unrestricted	Restricted	Capital Fund	Total
Support and revenue:									
Contributions	\$1,094,000	\$ 239,000	\$700,000	\$ 2,000	\$1,195,000	\$ 495,000	\$506,000	\$ 42,000	\$ 2,238,000
Donated property, services and rent	265,000	136,000	-	222,000	250,000	174,000	23,000	-	447,000
Admissions and fees	721,000	-	-	-	529,000	-	-	-	529,000
Store revenue	131,000	-	-	-	157,000	-	-	-	157,000
Interest income	-	37,000	-	-	-	20,000	-	-	20,000
Total support and revenue	2,211,000	412,000	700,000	224,000	2,131,000	689,000	529,000	42,000	3,391,000
Expenses:									
Exhibits and programs	1,512,000	107,000	536,000	1,859,000	3,578,000	168,000	433,000	10,000	4,189,000
Development and public relations	675,000	107,000	50,000	-	392,000	210,000	66,000	-	668,000
Administration	178,000	123,000	51,000	-	85,000	274,000	-	-	359,000
Total expenses	2,363,000	337,000	637,000	1,859,000	4,055,000	652,000	499,000	10,000	5,216,000
Excess (deficiency) of support and revenue over expenses	(152,000)	75,000	63,000	(1,635,000)	(1,924,000)	37,000	30,000	32,000	(1,825,000)
Beginning fund balances	5,985,000	(612,000)	141,000	1,070,000	7,678,000	(443,000)	136,000	1,038,000	8,409,000
Add (deduct) interfund transfers (Note 4)	(6,412,000)	(9,000)	(9,000)	6,430,000	231,000	(206,000)	(25,000)	-	-
Ending fund balance	\$ (579,000)	\$ (546,000)	\$195,000	\$5,865,000	\$5,985,000	\$ (612,000)	\$141,000	\$1,070,000	\$8,584,000

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

THE TECH MUSEUM OF INNOVATION

STATEMENTS OF CASH FLOWS

	<u>Year ended December 31,</u>	
	<u>1992</u>	<u>1991</u>
Cash flows from operating activities:		
Deficiency of support and revenue over expenses	\$(1,649,000)	\$(1,825,000)
Adjustments to reconcile deficiency of support and revenue over expenses to net cash used in operating activities:		
Depreciation and amortization	1,859,000	1,813,000
Donated equipment	(148,000)	(54,000)
Changes in assets and liabilities:		
Grants receivable, prepaids and other	(40,000)	85,000
Inventory	20,000	(14,000)
Accounts payable and accrued expenses	(6,000)	(385,000)
Deferred restricted contributions	<u>(145,000)</u>	<u>194,000</u>
Net cash used in operating activities	(109,000)	(186,000)
Cash flows used in investing activities for additions to property and equipment	<u>(13,000)</u>	<u>(223,000)</u>
Net decrease in cash and cash equivalents	(122,000)	(409,000)
Cash and cash equivalents, beginning of year	<u>388,000</u>	<u>797,000</u>
Cash and cash equivalents, end of year	<u>\$ 266,000</u>	<u>\$ 388,000</u>

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

THE TECH MUSEUM OF INNOVATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - THE MUSEUM AND ITS SIGNIFICANT ACCOUNTING POLICIES:

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

The Tech has entered into an agreement with the City of San Jose for the lease of certain building space for a nominal fee. The building space will house the Tech's temporary science museum until the permanent facility is completed (see Note 3). The Tech commenced operations in the fall of 1990.

Fund accounting

The accounts of the Tech are maintained in accordance with the principles of "fund accounting" to ensure observance of limitations and restrictions placed on the use of certain resources available to the Tech. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives.

The assets, liabilities and fund balances of the Tech are reported in three self-balancing fund groups as follows:

Operating Fund

In 1990, the Tech created the Operating Fund (formerly the Tech Fund) to account for the specific operations of the Tech which commenced in the fall of 1990. The Operating Fund consists primarily of expenses incurred in the operation of the Tech as well as revenues earned in admissions, fees and store sales.

Funds received and expended relating to the operations of the retail store within the Tech are recorded in the Store Fund. The Store Fund balance was \$(35,000) and \$129,000 at December 31, 1992 and 1991, respectively. This Store Fund has been grouped with the Operating Fund for financial statement presentation.

Permanent Facility Funds

The Permanent Facility Funds (formerly the Operating Funds), which include unrestricted and restricted resources, represent the portion of expendable funds that are available for support of the Tech's development of a permanent building facility and exhibits. Permanent Facility Funds restricted by the donor or the outside party for particular purposes are deemed to be earned and reported as revenues of the Permanent Facility Funds when the Tech has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as deferred restricted contributions.

Restricted funds contributed by the San Jose Redevelopment Agency (SJRDA) are recorded in the SJRDA Fund, which has been grouped with the Restricted Permanent Facility Fund for financial statement presentation. Funds raised through a joint fund-raising campaign between the San Jose Citizen's Committee (SJCC) and the Tech will be transferred to the SJRDA Fund at the conclusion of the campaign. During the year ended December 31, 1992, restricted contributions by the SJRDA aggregating \$549,000 were recorded as support and revenue by the Permanent Facility Restricted Fund. The SJRDA Fund balance was \$(300) and \$(5,000) at December 31, 1992 and 1991, respectively.

Capital Fund

Donations of property and equipment for use in the Tech's public programs are recorded in the Capital Equipment Fund. Additionally, funds expended for property and equipment used by the Tech in administering its operations are recorded in the Capital Equipment Fund. The Capital Equipment Fund balance was \$4,822,000 and \$31,000 at December 31, 1992 and 1991, respectively.

Funds received from SJCC are accounted for in the SJCC Fund. In January 1988, the Tech finalized an agreement with SJCC regarding a joint fund-raising campaign, which has been in progress since 1984, the goal of which is to obtain donations of monies to be applied to the development of the permanent facility. At the conclusion of the campaign, all contributions credited, net of expenses, if any, to the SJCC Fund will be transferred to the SJRDA under a separate agreement. The Tech and SJRDA have agreed that the SJRDA will construct the permanent facility, which will be leased by the Tech from SJRDA for a nominal fee (see Note 3). The SJCC Fund has been grouped with the Capital Equipment Fund for financial statement presentation.

Cash equivalents

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

Inventory

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

Property and equipment

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

Construction-in-progress

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

Donated property, services and rent

The Tech includes the estimated fair value of certain donated services, equipment and facility space as both revenue and expense in the periods that the benefit of such services, equipment and facility space are realized.

Equipment donated with specific provisions for its use is recognized as support and revenue over the shorter of the restriction period or the estimated useful life of the equipment.

NOTE 2 - RELATED PARTY TRANSACTIONS:

For the years ended December 31, 1992 and 1991, the Tech received cash contributions and equipment donations amounting to \$1,423,000 and \$1,246,000, respectively, from members of the Board of Directors of the Tech or companies with which the Directors are affiliated.

NOTE 3 - PERMANENT FACILITY:

In December 1984, the Tech reached an agreement in principle with the City of San Jose to locate the permanent facility on a site donated by the City.

In January 1988, the Tech finalized an agreement (the Agreement) with the SJRDA regarding the construction of the permanent facility. In accordance with the Agreement, the SJRDA will own the permanent facility and lease it to the Tech for a nominal fee. The Tech and the SJCC set a goal of \$10,000,000 from their own fund raising efforts to be contributed to the cost of the permanent facility. Currently, all proceeds received as a result of this fund raising effort are being accumulated in the SJCC Fund, which is reported as part of the Capital Fund for financial statement presentation. At the time of ground breaking, the Tech will remit the entire balance in the SJCC Fund to the SJRDA for the construction of the permanent facility (see Note 4).

The Agreement also states that the SJRDA will advance funds to the Tech for site preparation and building design expenses related to the construction of the permanent facility. The funds advanced are accumulated in the Restricted Permanent Facility Fund. When expended, equal amounts of revenue and expense are recognized in the Restricted Permanent Facility Fund. The SJRDA has advanced \$1,095,000 to the Tech for this purpose of which \$59,000 remains available in the Restricted Permanent Facility Fund at December 31, 1992.

NOTE 4- INTERFUND BORROWINGS AND TRANSFERS:

The Tech's agreement with the SJCC provides that funds credited to the SJCC Fund may be borrowed by the Unrestricted Permanent Facility Fund for the payment of certain expenses incurred by the Tech. All funds borrowed, which are interest free, must be repaid to the SJCC Fund prior to commencing construction of the permanent facility. At December 31, 1992, \$1,023,000 was borrowed under this agreement.

At December 31, 1992, the Unrestricted Permanent Facility Fund has loaned the Operating Fund \$614,000 for use in funding the Tech's operations. In addition, at December 31, 1992 the Restricted Permanent Facility Fund has loaned \$296,000 to the Unrestricted Permanent Facility Fund.

Interfund transfers for the year ended December 31, 1992 consist of transfers from the Operating Fund, Unrestricted Permanent Facility Fund, and the Restricted Permanent Facility Fund of \$6,412,000, \$9,000, and \$9,000, respectively, to the Capital Equipment Fund. Such amounts represent the cost of property and equipment, less accumulated depreciation and amortization, currently being used in Tech operations.

NOTE 5 - INCOME TAXES:

The Tech is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable California statutes.

NOTE 6 - INTEREST IN REAL PROPERTY:

During 1990, the Tech received a restricted donation in the form of a 50% interest in certain real property. The Tech recorded \$107,000 for this donation, representing the amount of net proceeds expected from the sale of this property, and included it in other current assets in the restricted fund. In June 1991, the property was sold and the Tech's interest in the property was exchanged for cash of \$92,000. A restricted contribution in an amount equal to the loss on sale was recorded concurrent with this transaction.