

THE TECH MUSEUM OF INNOVATION

**Financial Statements and
Report of Independent Certified Public Accountants**

December 31, 1998 and 1997

Report of Independent Certified Public Accountants

Board of Directors
The Tech Museum of Innovation

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

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Grant Thornton LLP

San Jose, California
April 16, 1999

The Tech Museum of Innovation

STATEMENTS OF FINANCIAL POSITION

December 31,

	1998			1997				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS								
Cash	\$ 8,071	\$ 5,291,756	\$ 100,000	\$ 5,399,827	\$ 2,451	\$ 502,273	\$ -	\$ 504,724
Receivable from the sale of investments	-	228,274	-	228,274	-	65,802	-	65,802
Investments	2,000,000	730,373	-	2,730,373	-	11,050,190	-	11,050,190
Contributed support receivable, net	-	3,791,711	-	3,791,711	171,390	8,604,923	-	8,776,313
Public support receivable, net	158,888	-	-	158,888	-	485,437	-	485,437
Receivable for contributed use of facility, net	-	22,216,722	-	22,216,722	-	21,374,326	-	21,374,326
Grants receivable, net	98,991	-	-	98,991	138,656	-	-	138,656
Other receivable	109,424	30,394	-	139,818	31,850	12,018	-	43,868
Prepaid expenses and other assets	2,139,313	20,661	-	2,159,974	751,361	22,252	-	773,613
Inventory	148,302	-	-	148,302	64,358	-	-	64,358
Property and equipment, net	30,004,020	-	-	30,004,020	431,998	-	-	431,998
Construction-in-progress	-	-	-	-	4,291,271	-	-	4,291,271
Beneficial interest in trust	-	-	100,608	100,608	-	-	140,806	140,806
	<u>\$ 34,667,009</u>	<u>\$ 32,309,891</u>	<u>\$ 200,608</u>	<u>\$ 67,177,508</u>	<u>\$ 5,883,335</u>	<u>\$ 42,117,221</u>	<u>\$ 140,806</u>	<u>\$ 48,141,362</u>
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable and accrued expenses	\$ 3,256,559	\$ 597,385	\$ -	\$ 3,853,944	\$ 424,868	\$ 201,639	\$ -	\$ 626,507
Deferred revenue	175,618	-	-	175,618	-	-	-	-
Note payable	700,000	-	-	700,000	-	-	-	-
Payable (receivable) between net asset categories	(3,969,434)	3,968,826	608	-	(999,871)	959,065	40,806	-
Total liabilities	162,743	4,566,211	608	4,729,562	(575,003)	1,160,704	40,806	626,507
Net assets								
Unrestricted								
Undesignated	4,500,246	-	-	4,500,246	1,735,069	-	-	1,735,069
Designated for property, equipment and construction in progress	30,004,020	-	-	30,004,020	4,723,269	-	-	4,723,269
Temporarily restricted	-	27,743,680	-	27,743,680	-	40,956,517	-	40,956,517
Permanently restricted	-	-	200,000	200,000	-	-	100,000	100,000
Total net assets	34,504,266	27,743,680	200,000	62,447,946	6,458,338	40,956,517	100,000	47,514,855
	<u>\$ 34,667,009</u>	<u>\$ 32,309,891</u>	<u>\$ 200,608</u>	<u>\$ 67,177,508</u>	<u>\$ 5,883,335</u>	<u>\$ 42,117,221</u>	<u>\$ 140,806</u>	<u>\$ 48,141,362</u>

See accompanying notes to financial statements.

The Tech Museum of Innovation
STATEMENTS OF ACTIVITIES

Years ended December 31,

	1998			1997				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Public support	\$ 392,222	\$ 14,563	\$ -	\$ 406,785	\$ 325,000	\$ 71,131	\$ -	\$ 396,131
Contributed support and special events, net of allowance and net present value adjustment	3,413,315	7,876,196	100,000	11,389,511	2,267,801	7,875,935	-	10,143,736
Donated property and services	609,027	14,212,570	-	14,821,597	213,389	2,692,232	-	2,905,621
Admissions and fees	2,090,151	-	-	2,090,151	693,882	-	-	693,882
Store revenue	519,137	-	-	519,137	224,012	-	-	224,012
Federal awards	376,101	-	-	376,101	359,374	-	-	359,374
Interest income	560,159	14,790	-	574,949	515,838	20,213	-	536,051
Investment realized gain (loss)	(111,512)	-	-	(111,512)	1,577	-	-	1,577
Other income	7,729	-	-	7,729	424	-	-	424
Net assets released from restriction	35,330,956	(35,330,956)	-	-	6,490,625	(6,490,625)	-	-
Total support and revenue	43,187,285	(13,212,837)	100,000	30,074,448	11,091,922	4,168,886	-	15,260,808
Expenses:								
Program services								
Museum project	456,883	-	-	456,883	351,823	-	-	351,823
Exhibits, programs, and experiences	5,179,606	-	-	5,179,606	2,854,591	-	-	2,854,591
Visitor services	1,252,274	-	-	1,252,274	314,895	-	-	314,895
Education	906,536	-	-	906,536	449,197	-	-	449,197
Supporting services								
Development, public relations and special events	5,734,243	-	-	5,734,243	2,269,986	-	-	2,269,986
Management and general	1,611,815	-	-	1,611,815	919,391	-	-	919,391
Total expenses	15,141,357	-	-	15,141,357	7,159,883	-	-	7,159,883
Change in net assets	28,045,928	(13,212,837)	100,000	14,933,091	3,932,039	4,168,886	-	8,100,925
Net assets at beginning of year	6,458,338	40,956,517	100,000	47,514,855	2,526,299	36,787,631	100,000	39,413,930
Net assets at end of year	\$ 34,504,266	\$ 27,743,680	\$ 200,000	\$ 62,447,946	\$ 6,458,338	\$ 40,956,517	\$ 100,000	\$ 47,514,855

See accompanying notes to financial statements.

The Tech Museum of Innovation
STATEMENTS OF CASH FLOWS

Years ended December 31,

	1998	1997
Cash flows from operating activities:		
Change in net assets	\$ 14,933,091	\$ 8,100,925
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,156,093	150,876
Adjustment to estimated uncollectible contributed support	(140,445)	89,092
Present value adjustment, net	1,246,505	(1,040,269)
Donated equipment	(14,000,000)	(1,588,000)
Donated investments	(3,355,000)	(512,000)
Contributions restricted for long-term investment	(7,890,759)	(7,947,066)
Contributions restricted for investment in endowment	(100,000)	-
Realized loss/(gain)	111,512	(1,577)
Changes in operating assets and liabilities:		
Support receivables	3,362,695	(1,515,880)
Grants receivable and inventory	(140,229)	(79,001)
Prepays and other	(1,386,361)	6,730
Accounts payable and accrued expenses	3,403,056	261,867
Net cash used in operating activities	(2,799,842)	(4,074,303)
Cash flows from investing activities:		
Purchases of property, equipment and construction-in-progress	(12,644,222)	(1,649,366)
Purchases of investments	(6,273,128)	(11,203,057)
Proceeds from sales of investments	17,921,536	8,812,386
Net cash used in investing activities	(995,814)	(4,040,037)
Cash flows from financing activities:		
Contributions restricted for long-term investment	7,890,759	7,947,066
Contributions restricted for investment in endowment	100,000	-
Proceeds from note payable	700,000	-
Net cash provided by financing activities	8,690,759	7,947,066
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 4,895,103	 (167,274)
Cash and cash equivalents, beginning of year	504,724	671,998
Cash and cash equivalents, end of year	\$ 5,399,827	\$ 504,724

See accompanying notes to financial statements.

The Tech Museum of Innovation
NOTES TO FINANCIAL STATEMENTS
December 31, 1998 and 1997

NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Operations

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

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

2. Categories of Net Assets

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

- *Unrestricted net assets* generally have no donor-imposed restrictions. This category includes those revenues and expenses associated with program and supporting services.
- *Temporarily restricted net assets* include gifts for which donor-imposed restrictions have not been met and funds for which the ultimate purpose of the proceeds is not permanently restricted.
- *Permanently restricted net assets* includes a gift which requires, by donor-imposed restriction, that the corpus be invested in perpetuity and only the income be made available for the Tech's education program.

3. Revenue Recognition

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

4. Contributed Support

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

5. Functional Classification of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated, principally on a direct cost basis, among the classifications.

The Tech Museum of Innovation
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 1998 and 1997

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

6. Investments

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

7. Inventory

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

8. Property and Equipment

Property and equipment are stated at cost for purchased assets and at estimated fair value for contributed assets. Depreciation is computed by the straight-line method over the estimated useful lives of the assets which range 3 - 5 years. Leasehold improvements are amortized by the straight-line method over the shorter of the estimated useful lives of the assets or the term of the related lease.

9. Construction-In-Progress

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

10. Donated Property, Services and Use of Facility

The Tech records various types of in kind support including professional services and tangible assets. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in kind support are offset by like amounts included in expenses. Additionally, the Tech receives a significant amount of contributed time which does not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

11. Tax Exempt Status

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

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1998 and 1997

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

12. Use of Estimates

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

The Tech's allowance for estimated uncollectible contributed support receivables of \$406,419 and \$546,865, at December 31, 1998 and 1997, respectively are particularly significant estimates. The determination of the balance in this account is based on an analysis of the receivables and reflects an amount which, in management's judgment, is adequate to provide for potential losses after giving consideration to the character of the receivables, current economic conditions, past collection experience and such other factors that deserve current recognition in estimating losses.

13. Expiration of Donor-Imposed Restrictions

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

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

14. Federal Awards

Federal awards consist of funds received from the federal government for specific research projects. Substantially all of the Tech's federal award revenue is derived from cost reimbursement grants, which are billed to the grantor after costs have been incurred. Federal award revenue and unbilled federal awards are recognized to the extent the related costs are incurred.

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

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1998 and 1997

NOTE B - INVESTMENTS AND BENEFICIAL INTEREST IN TRUST

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

	<u>1998</u>		
	<u>Interest Income</u>	<u>Net Realized (Losses)</u>	<u>Fair Value</u>
U.S. Government Securities	\$ 482,411	\$ -	\$ 2,553,694
Equity Securities	6,036	(111,512)	176,679
Beneficial Interest in Trust	<u>14,790</u>	<u>-</u>	<u>100,608</u>
	503,237	(111,512)	2,830,981
Cash	<u>71,712</u>	<u>-</u>	<u>5,399,827</u>
	<u>\$ 574,949</u>	<u>\$ (111,512)</u>	<u>\$ 8,230,808</u>
	<u>1997</u>		
	<u>Interest Income</u>	<u>Net Realized Gains</u>	<u>Fair Value</u>
U.S. Government Securities	\$ 453,720	\$ -	\$ 10,960,106
Equity Securities	3,150	1,577	90,084
Beneficial Interest in Trust	<u>20,213</u>	<u>-</u>	<u>140,806</u>
	477,083	1,577	11,190,996
Cash	<u>58,968</u>	<u>-</u>	<u>504,724</u>
	<u>\$ 536,051</u>	<u>\$ 1,577</u>	<u>\$ 11,695,720</u>

The beneficial interest in trust represents amounts held by The Community Foundation of Santa Clara County on behalf of the Tech.

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1998 and 1997

NOTE C - CONTRIBUTED SUPPORT RECEIVABLE

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

	December 31, 1998		
	Contributed Support	Contributed Public Support	Contributed Use of Facility
1999	\$ 2,940,043	\$ 158,888	\$ 1,404,000
2000	1,379,724	-	1,404,000
2001	175,645	-	1,404,000
2002	65,131	-	1,404,000
2003	-	-	1,404,000
2004 and thereafter	-	-	64,389,600
	<u>4,560,543</u>	<u>158,888</u>	<u>71,409,600</u>
Less discount for present value	(362,413)	-	(49,192,878)
Less allowance for estimated uncollectible contributed support	<u>(406,419)</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,791,711</u>	<u>\$ 158,888</u>	<u>\$ 22,216,722</u>
	December 31, 1997		
	Contributed Support	Contributed Public Support	Contributed Use of Facility
1998	\$ 7,290,067	\$ 500,000	\$ 194,400
1999	1,880,029	-	1,404,000
2000	730,833	-	1,404,000
2001	47,516	-	1,404,000
2002	10,000	-	1,404,000
2003 and thereafter	-	-	71,604,000
	<u>9,958,445</u>	<u>500,000</u>	<u>77,414,400</u>
Less discount for present value	(635,267)	(14,563)	(56,040,074)
Less allowance for estimated uncollectible contributed support	<u>(546,865)</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,776,313</u>	<u>\$ 485,437</u>	<u>\$ 21,374,326</u>

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1998 and 1997

NOTE C - CONTRIBUTED SUPPORT RECEIVABLE (continued)

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

NOTE D - CONDITIONAL CONTRIBUTED SUPPORT

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

NOTE E - PROPERTY AND EQUIPMENT

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

	<u>1998</u>	<u>1997</u>
Exhibits and furnishings	\$ 22,608,895	\$ 6,670,341
Furniture, fixtures and improvements	4,260,173	899,539
Leasehold improvements	<u>7,427,805</u>	<u>2,093,212</u>
	34,296,873	9,663,092
Less: accumulated depreciation	<u>4,292,853</u>	<u>9,231,094</u>
	<u>\$ 30,004,020</u>	<u>\$ 431,998</u>

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

NOTE F - NOTE PAYABLE

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

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

1999	\$ 140,000
2000	140,000
2001	140,000
2002	140,000
2003	<u>140,000</u>
	<u>\$ 700,000</u>

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1998 and 1997

NOTE G - LINE OF CREDIT

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

NOTE H - RELATED PARTY TRANSACTIONS

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

NOTE I - COMMITMENTS

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

Year ending December 31,

1999	\$ 244,194
2000	161,960
2001	167,350
2002	167,840
2003 and thereafter	<u>594,950</u>
	<u>\$ 1,336,294</u>

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

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

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

NOTE J - MAJOR CONTRIBUTIONS

In 1998, 4 donors accounted for 31% of contributed support. In 1997, 4 donors accounted for 67% of contributed support.

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1998 and 1997

NOTE K - EMPLOYEE BENEFIT PLAN

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

NOTE L - NET ASSETS

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

	1998		1997	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Education and programs	\$ 2,172,938	\$ 200,000	\$ 2,032,000	\$ 100,000
New museum	-	-	17,550,191	-
Tech Museum projects	2,621,100	-	-	-
Annual campaign	732,920	-	-	-
Use of facilities	<u>22,216,722</u>	-	<u>21,374,326</u>	-
	<u>\$ 27,743,680</u>	<u>\$ 200,000</u>	<u>\$ 40,956,517</u>	<u>\$ 100,000</u>

NOTE M - NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors, including the passage of time. Net assets were released from restriction as follows for the years ended December 31,:

	1998	1997
Purposes restrictions accomplished:		
Education	\$ 424,884	\$ 20,213
New museum	34,477,672	6,276,012
Time restriction met:		
Use of facilities	<u>428,400</u>	<u>194,400</u>
	<u>\$ 35,330,956</u>	<u>\$ 6,490,625</u>