

THE TECH MUSEUM
OF INNOVATION

Financial Statements
June 30, 2008 and 2007

Together with
Independent Auditors' Report

THE TECH MUSEUM OF INNOVATION

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June 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Tech Museum of Innovation

We have audited the accompanying statement of financial position of The Tech Museum of Innovation (the "Organization", a California public benefit corporation) as of June 30, 2008 and 2007 and the related statement of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 present fairly, in all material respects, the financial position of the Organization at June 30, 2008 and 2007, and the results of its activities and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


San Jose, California
September 11, 2008

THE TECH MUSEUM OF INNOVATION
Statement of Financial Position

| | June 30, 2008 | | | June 30, 2007 | | | | |
|---|---------------------|------------------------|------------------------|----------------------|----------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| ASSETS | | | | | | | | |
| Cash and cash equivalents | \$ 59,771 | \$ 721,088 | \$ 1,011,866 | \$ 1,792,725 | \$ 267,815 | \$ 10,000 | \$ 8,515 | \$ 286,330 |
| Investments | 24,727 | 2,764,879 | 11,637,101 | 14,426,707 | 1,195,420 | 1,312,471 | 12,592,880 | 15,100,771 |
| Other receivables | 1,209,065 | 841,967 | 16,042 | 2,067,074 | 170,473 | 805,014 | 29,612 | 1,005,099 |
| Prepaid expenses and other assets | 607,006 | - | - | 607,006 | 331,955 | - | - | 331,955 |
| Pledges receivable, net | 296,720 | - | 12,484 | 309,204 | - | - | 235,864 | 235,864 |
| Receivable between asset categories | (100,000) | 100,000 | - | - | - | - | - | - |
| Receivable for contributed use of facility, net | - | 21,748,102 | - | 21,748,102 | - | 21,841,746 | - | 21,841,746 |
| Property and equipment, net | 7,499,824 | - | - | 7,499,824 | 8,391,056 | - | - | 8,391,056 |
| Total assets | \$ 9,597,113 | \$ 26,176,036 | \$ 12,677,493 | \$ 48,450,642 | \$ 10,356,719 | \$ 23,969,231 | \$ 12,866,871 | \$ 47,192,821 |
| LIABILITIES AND NET ASSETS | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable and accrued expenses | \$ 972,366 | \$ - | \$ - | \$ 972,366 | \$ 739,209 | \$ - | \$ - | \$ 739,209 |
| Loan payable | - | - | - | - | 27,173 | - | - | 27,173 |
| Deferred revenue | 350,122 | - | - | 350,122 | 264,290 | - | - | 264,290 |
| Total liabilities | 1,322,488 | - | - | 1,322,488 | 1,030,672 | - | - | 1,030,672 |
| Commitments | | | | | | | | |
| Net assets: | | | | | | | | |
| Unrestricted: | | | | | | | | |
| Undesignated | 774,801 | - | - | 774,801 | (510,225) | - | - | (510,225) |
| Designated for property and equipment | 7,499,824 | - | - | 7,499,824 | 8,391,056 | - | - | 8,391,056 |
| Designated for reinvestment | - | - | - | - | 1,445,216 | - | - | 1,445,216 |
| Temporarily restricted | - | 26,176,036 | - | 26,176,036 | - | 23,969,231 | - | 23,969,231 |
| Permanently restricted | - | - | 12,677,493 | 12,677,493 | - | - | 12,866,871 | 12,866,871 |
| Total net assets | 8,274,625 | 26,176,036 | 12,677,493 | 47,128,154 | 9,326,047 | 23,969,231 | 12,866,871 | 46,162,149 |
| Total liabilities and net assets | \$ 9,597,113 | \$ 26,176,036 | \$ 12,677,493 | \$ 48,450,642 | \$ 10,356,719 | \$ 23,969,231 | \$ 12,866,871 | \$ 47,192,821 |

The accompanying notes are an integral part of these financial statements

THE TECH MUSEUM OF INNOVATION
Statement of Activities and Changes in Net Assets

For the Years Ended June 30,

| | 2008 | | | | 2007 | | | |
|---|--------------|------------------------|------------------------|---------------|--------------|------------------------|------------------------|---------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| | | | Restricted | Total | | | Restricted | Total |
| Revenues, gains and support: | \$ 1,300,000 | \$ - | \$ - | \$ 1,300,000 | \$ 1,300,000 | \$ - | \$ - | \$ 1,300,000 |
| Public support | | | | | | | | |
| Contributed support and special events, net of allowance and net present value adjustment | 6,555,472 | 3,911,750 | (49,378) | 10,417,844 | 4,926,550 | 2,158,171 | (58,511) | 7,026,210 |
| Donated property, services and rent | - | 2,088,008 | - | 2,088,008 | - | 1,689,816 | - | 1,689,816 |
| Admissions and fees | 6,809,875 | - | - | 6,809,875 | 2,189,587 | - | - | 2,189,587 |
| Store revenue | 234,277 | - | - | 234,277 | 169,155 | - | - | 169,155 |
| Federal awards | 40,188 | - | - | 40,188 | 313,246 | - | - | 313,246 |
| Dividend and interest income | 454,905 | - | - | 454,905 | 485,919 | - | - | 485,919 |
| Realized/unrealized gains (losses) on investments, net | (1,755,423) | - | - | (1,755,423) | 1,453,604 | - | - | 1,453,604 |
| Net assets released from restriction | 3,932,953 | (3,792,953) | (140,000) | - | 4,330,022 | (2,830,022) | (1,500,000) | - |
| Total revenues, gains and support | 17,572,247 | 2,206,805 | (189,378) | 19,589,674 | 15,168,083 | 1,017,965 | (1,558,511) | 14,627,537 |
| Expenses: | | | | | | | | |
| Program services: | | | | | | | | |
| Exhibits, programs and experiences | 7,531,631 | - | - | 7,531,631 | 7,503,458 | - | - | 7,503,458 |
| Visitor services | 5,177,650 | - | - | 5,177,650 | 1,207,373 | - | - | 1,207,373 |
| Education | 330,309 | - | - | 330,309 | 550,359 | - | - | 550,359 |
| Supporting services: | | | | | | | | |
| Fundraising and special events | 2,377,448 | - | - | 2,377,448 | 1,505,860 | - | - | 1,505,860 |
| Membership | 249,550 | - | - | 249,550 | 284,803 | - | - | 284,803 |
| Management and general: | | | | | | | | |
| Marketing and public relations | 997,392 | - | - | 997,392 | 727,222 | - | - | 727,222 |
| Administration | 1,959,689 | - | - | 1,959,689 | 1,988,706 | - | - | 1,988,706 |
| Total expenses | 18,623,669 | - | - | 18,623,669 | 13,767,781 | - | - | 13,767,781 |
| Change in net assets | (1,051,422) | 2,206,805 | (189,378) | 966,005 | 1,400,302 | 1,017,965 | (1,558,511) | 859,756 |
| Net assets, beginning of period | 9,326,047 | 23,969,231 | 12,866,871 | 46,162,149 | 7,925,745 | 22,951,266 | 14,425,382 | 45,302,393 |
| Net assets, end of period | \$ 8,274,625 | \$ 26,176,036 | \$ 12,677,493 | \$ 47,128,154 | \$ 9,326,047 | \$ 23,969,231 | \$ 12,866,871 | \$ 46,162,149 |

The accompanying notes are an integral part of these financial statements

THE TECH MUSEUM OF INNOVATION
Statement of Cash Flows

| | <u>For the Years Ended June 30,</u> | |
|---|-------------------------------------|--------------------|
| | <u>2008</u> | <u>2007</u> |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 966,005 | \$ 859,756 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,702,319 | 1,711,232 |
| Provision for estimated uncollectible contributed support | 3,380 | (10,500) |
| Present value adjustment, net | 9,513 | (37,575) |
| Contributions restricted for investment in endowment | 189,378 | 1,558,511 |
| Realized and unrealized loss (gain) on investments | 1,755,423 | (1,453,604) |
| Changes in operating assets and liabilities: | | |
| Support receivables | 7,411 | 298,997 |
| Grants receivable | - | 12,694 |
| Other receivables | (1,061,975) | (307,270) |
| Prepaid expenses and other assets | (275,051) | 315,319 |
| Accounts payable and accrued expenses | 233,157 | 71,203 |
| Deferred revenue | 85,832 | (48,972) |
| Net cash provided by operating activities | <u>3,615,392</u> | <u>2,969,791</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (811,087) | (603,286) |
| Purchases of investments | (14,800,393) | (1,191,887) |
| Proceeds from sales of investments, net | 13,719,034 | 874,759 |
| Net cash used by investing activities | <u>(1,892,446)</u> | <u>(920,414)</u> |
| Cash flows from financing activities: | | |
| Net release for investment in endowment | (189,378) | (1,558,511) |
| Proceeds from line of credit | - | 250,000 |
| Payment on line of credit | - | (1,450,000) |
| Payment on loan payable | (27,173) | (4,718) |
| Net cash used by financing activities | <u>(216,551)</u> | <u>(2,763,229)</u> |
| Net increase (decrease) in cash and cash equivalents | 1,506,395 | (713,852) |
| Cash and cash equivalents, beginning of period | <u>286,330</u> | <u>1,000,182</u> |
| Cash and cash equivalents, end of period | <u>\$ 1,792,725</u> | <u>\$ 286,330</u> |

The accompanying notes are an integral part of these financial statements

THE TECH MUSEUM OF INNOVATION

Notes to Financial Statements

June 30, 2008

Note 1 - Organization and operations:

The Tech Museum of Innovation (“The Tech” or the “Organization”) was incorporated on January 11, 1983 as a nonprofit public benefit corporation. The purpose of The Tech is to operate a world-class technology science museum. The Tech’s support and revenue comes primarily through contributions, admissions and fees.

The Tech is an educational resource established to engage people of all ages and backgrounds in exploring and experiencing the technologies affecting their lives, and to inspire young people to become innovators in the technologies of tomorrow.

The Tech has been classified as a publicly supported, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d).

Note 2 - Summary of significant accounting policies:

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) in its Statement of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, The Tech is required to report information regarding its financial position and activities according to three classes of net assets:

- ◆ *Unrestricted net assets* are available to support all activities of The Tech without restrictions and include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation.
- ◆ *Temporarily restricted net assets* represent contributions whose use is limited to donor-imposed stipulations that expire by the passage of time or other restrictions and for which the applicable restriction was not met as of the end of the current reporting period.
- ◆ *Permanently restricted net assets* are restricted by the donor for investment in perpetuity, such as endowments. As determined by The Tech, the income from such invested assets, including realized and unrealized capital gains, is available to support the activities of The Tech at a rate of 5% of the total invested assets in the endowment, applied on a quarterly basis, as long as the market value of the invested assets is the same as, or greater than, the original investment value.

THE TECH MUSEUM OF INNOVATION

Notes to Financial Statements

June 30, 2008

Note 2 - Summary of significant accounting policies (continued):

Cash and cash equivalents - For purposes of reporting cash flows, The Tech considers all highly liquid investments purchased with a maturity of three months or less at the date of purchase to be cash equivalents.

Investments - All debt securities and equity securities with readily determinable fair values are carried at estimated fair value based on quoted market prices as of the last trading date of The Tech's fiscal year. Contributions of investments are recorded at estimated fair value at the date of donation and are sold as soon as reasonably possible. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur as part of unrestricted net assets. Realized gains or losses resulting from sales or maturities are calculated on an adjusted cost basis. Adjusted cost is the estimated fair value of the security at the beginning of the year. Dividend and interest income are accrued when earned.

The investments owned that represent securities that are not publicly traded, are stated at estimated fair value as determined by the investment manager. In establishing the estimated fair value, the investment manager may give consideration to the cost basis of the security, developments concerning the issuing company subsequent to the acquisition of such security, financial data and projections of the issuing company, and such other factors as the investment manager deems relevant. The investment manager's estimate and assumption of fair value of the private placement security may differ significantly from the value that would have been used had a ready market existed, and the difference could be material.

Other receivables - Other receivable amounts are those receivables deemed to be collectible within the next twelve month period. Other receivables are predominately associated with amounts for The Tech Awards program. An allowance reserve for uncollectible other receivables has been established utilizing a 2% factor.

Prepaid expenses and other assets - Prepaid expenses and other assets include payments on a 10-year lease commitment for the IMAX theatre, prepaid in 1998 expiring October 2008. This lease was extended in March 2008 expiring October 2011, with remaining balances of approximately \$326,000 and \$271,000 at June 30, 2008 and 2007, respectively (see Note 14).

THE TECH MUSEUM OF INNOVATION

Notes to Financial Statements

June 30, 2008

Note 2 - Summary of significant accounting policies (continued):

Pledges receivable - Pledges are accounted for in accordance with the recommendations of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Under SFAS No. 116, promises to give are either unconditional or conditional. Unconditional promises to give are promises that depend only on the passage of time or the demand by the promisor for performance. A conditional promise to give is a promise that depends on the occurrence of a specified future and uncertain event to bind the promisor.

Contributions that are promised in one year but are expected to be received after the end of that year (or over a number of years) are considered pledges. Pledges are predominantly associated with amounts receivable for The Tech's endowment. Pledges are discounted at a reasonable rate of interest based on the Applicable Federal Rate (3.8% at June 30, 2008). An allowance reserve for uncollectible pledges has been established utilizing a 2% factor. The financial statements reflect these pledges net of the discount and allowance reserve.

Property and equipment - Purchased property and equipment are stated at cost. Acquisitions of property and equipment in excess of \$3,000 are capitalized. Significant donated property and equipment is recorded at estimated fair value at the date of receipt. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to twenty years. Leasehold improvements are amortized using the straight-line method over the lesser of the assets' estimated useful lives or the term of the applicable lease. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Donated property, services and rent - Contributions-in-kind are recognized in accordance with SFAS No. 116. Significant donated property and equipment is recorded at estimated fair value at the date of receipt. Contributed services, which require a specialized skill and which The Tech would have paid for if not contributed, have been recorded at their estimated fair market value. In addition, a substantial number of volunteers have donated significant amounts of time in The Tech's program services and fund-raising activities. The value of donated volunteer services has not been recognized in the accompanying financial statements because such volunteer services do not require specialized skills.

THE TECH MUSEUM OF INNOVATION

Notes to Financial Statements

June 30, 2008

Note 2 - Summary of significant accounting policies (continued):

Donated property, services and rent (continued) -

Donated property, services and rent include the following for the years ended June 30:

| | <u>2008</u> | <u>2007</u> |
|------------------------------------|---------------------|---------------------|
| Contributed services: | | |
| Management and general | | |
| Legal | \$ 17,500 | \$ 4,000 |
| Catering | 12,500 | 2,888 |
| Services | <u>394,167</u> | <u>-</u> |
| Total contributed services | 424,167 | 6,888 |
| Contributed property and equipment | 353,487 | 366,599 |
| Contributed use of facilities | <u>1,310,354</u> | <u>1,316,329</u> |
| Total | \$ <u>2,088,008</u> | \$ <u>1,689,816</u> |

Revenue recognition - The Tech records contributions and promises to give or pledges in accordance with SFAS No. 116. SFAS No. 116 requires that contributions received, including unconditional promises to give be recognized as revenue at their fair value in the period the contribution or pledge is received. Contributed support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. The Tech reports gifts of cash and other assets as restricted support if such gifts are received with donor stipulations that limit the use of the donated assets. When such restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. All other contributed support is recognized as revenue when received or un-conditionally promised.

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

Conditional promises to give and grants are not included as support until the conditions are substantially met. Amounts related to a conditional grant for the year ended June 30, 2008 are \$200,000. There were no conditional grants or promises to give for the year ended June 30, 2007.

Supplemental cash flow information - Interest payments included in the Statement of Cash Flows were \$1,009 and \$44,183 for the years ended June 30, 2008 and 2007, respectively.

THE TECH MUSEUM OF INNOVATION

Notes to Financial Statements

June 30, 2008

Note 2 - Summary of significant accounting policies (continued):

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 in accordance with the Single Audit Act and Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* ("A-133 audit"). 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 was not subject to an A-133 audit for the years ended June 30, 2008 and 2007.

Functional expense allocations - 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 based on estimates of time and other factors among the programs and supporting services benefited.

Use of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Fair value of financial instruments - Financial instruments included in the Organization's Statement of Financial Position as of June 30, 2008 and 2007 include cash and cash equivalents, investments, receivables, accounts payable and accrued expenses. For cash and cash equivalents, receivables, accounts payable, and accrued expenses, the carrying amounts represent a reasonable estimate of the corresponding fair values. Investments are reflected in the accompanying Statement of Financial Position at their estimated fair values using methodologies described above.

THE TECH MUSEUM OF INNOVATION

Notes to Financial Statements

June 30, 2008

Note 2 - Summary of significant accounting policies (continued):

Concentration of credit risk - Financial instruments that potentially subject The Tech to credit risk consist primarily of cash, cash equivalents, investments, and receivables. The Tech maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments, bonds with maturities of 90 days or less, and money market funds. At times, such amounts might exceed FDIC limits. The Tech's investments have been placed with high quality financial institutions. The Tech closely monitors these investments and has not experienced significant credit losses.

The credit risk in contributed support receivable is mitigated by the fact that generally the pledges are made by local donors and are evaluated by The Tech based on the knowledge of the donors. Additionally, any contributed support receivable that is expected to be collected after one year has been discounted and is reflected in the financial statements at its net present value. It is The Tech's opinion that it is not exposed to any significant credit risks.

Advertising - Advertising costs are expensed as incurred. Advertising, promotion, and marketing expense for the years ended June 30, 2008 and 2007 were approximately \$964,000 and \$761,000, respectively.

Reclassification - Certain 2007 balances have been reclassified to conform to the 2008 financial statement presentation. These reclassifications have no effect on previously reported change in net assets.

Recent Accounting Pronouncements -

Accounting for Uncertainty in Income Taxes - In June 2006, the FASB issued Financial Interpretation Number 48, *Accounting for Uncertainty in Income Taxes—an interpretation of SFAS Statement No. 109* ("FIN 48"), which prescribes a comprehensive model for how an organization should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the organization has taken or expects to take on a tax return. FIN 48 is effective for fiscal periods beginning on or after December 15, 2007. The Organization is currently evaluating what effect, if any, the adoption of FIN 48 will have on the Organization's financial statements.

THE TECH MUSEUM OF INNOVATION

Notes to Financial Statements

June 30, 2008

Note 2 - Summary of significant accounting policies (continued):

Recent Accounting Pronouncements (continued) -

Fair Value Measurements - In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. SFAS No. 157 does not expand or require any new fair value measures and is effective for fiscal periods beginning after November 15, 2008. The Tech does not anticipate that the adoption of SFAS No. 157 will have a material impact on the Organization's financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115*, (effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The Tech does not anticipate that the adoption of SFAS No. 157 will have a material impact on the Organization's financial position, results of operations, or cash flows.

On August 6, 2008, the FASB issued FASB Staff Position FAS 117-1 ("FSP FAS 117-1"), *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). UPMIFA is a model act that serves as a guideline for states to use in enacting legislation. FSP FAS 117-1 also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. The provisions of FSP FAS 117-1 are effective for fiscal years ending after December 15, 2008. The Organization is currently evaluating what effect, if any, the adoption of FSP FAS 117-1 will have on the Organization's financial statements.

Other accounting standards that have been issued or proposed by FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Organization's financial statements upon adoption.

THE TECH MUSEUM OF INNOVATION

Notes to Financial Statements

June 30, 2008

Note 3 - Investments:

The Tech's investments consisted of the following at June 30:

| | <u>2008</u> | | <u>2007</u> |
|-------------------------------|----------------------|----|-------------------|
| Equity funds | \$ 7,914,260 | \$ | 9,924,519 |
| Certificates of deposit | 2,764,879 | | 1,546,255 |
| U.S. Treasury bonds and notes | 2,452,998 | | 2,462,340 |
| Corporate bonds and notes | 685,317 | | 588,490 |
| Venture capital funds | 584,526 | | 550,742 |
| Money market funds | <u>24,727</u> | | <u>28,425</u> |
| Total | <u>\$ 14,426,707</u> | \$ | <u>15,100,771</u> |

The following schedule summarizes the investment returns for the years ended June 30:

| | <u>2008</u> | | <u>2007</u> |
|--|-----------------------|----|------------------|
| Dividend and interest income | \$ 454,905 | \$ | 485,919 |
| Net realized / unrealized gains (losses) | (1,721,103) | | 1,486,808 |
| Investment related expenses | <u>(34,320)</u> | | <u>(33,204)</u> |
| Total | <u>\$ (1,334,838)</u> | \$ | <u>1,939,523</u> |

The Tech has a commitment under a venture partnership agreement to make capital contributions of approximately \$31,000 and \$94,000 at June 30, 2008 and 2007, respectively.

THE TECH MUSEUM OF INNOVATION

Notes to Financial Statements

June 30, 2008

Note 4 - Pledges receivable and contributed use of facility:

Receivables are recorded after discounting the future cash flows to present value using a discount rate of 3.8%. The maturities of these receivables are as follows:

| Years Ending June 30, | Unrestricted Pledges Receivable | Permanently Restricted Pledges Receivable | Temporarily Restricted Contributed Use of Facility |
|---|---------------------------------------|--|---|
| 2009 | \$ 40,000 | \$ 156,000 | \$ 1,404,000 |
| 2010 | 40,000 | 7,000 | 1,404,000 |
| 2011 | 40,000 | - | 1,404,000 |
| 2012 | 40,000 | - | 1,404,000 |
| 2013 | 40,000 | - | 1,404,000 |
| Thereafter | 150,000 | - | 56,862,000 |
| | 350,000 | 163,000 | 63,882,000 |
| Less discount for present value | (46,280) | (256) | (42,133,898) |
| Less allowance for estimated uncollectible contributed support | (7,000) | (150,260) | - |
| Total | \$ 296,720 | \$ 12,484 | \$ 21,748,102 |

The Tech has entered into an agreement with the City of San Jose (the "City") for the lease of its primary facility for \$1 a year. The receivable for the contributed use of the facility reflects the fair value of the use of the facility for 55 years (through 2053). With the adoption of the *1996 AICPA Audit and Accounting Guide for Not-for-Profit Organizations*, the Tech recognized contribution revenue and a receivable for the present value of the promise for rent-free use of the facility with the annual maturity of contributed support receivable recognized as rent expense.

Note 5 - Property and equipment, net:

Property and equipment, net consisted of the following at June 30:

| | 2008 | 2007 |
|---|---------------------|---------------------|
| Exhibits | \$ 23,581,343 | \$ 23,558,932 |
| Leasehold improvements | 10,007,454 | 9,967,818 |
| Furniture, fixtures and improvements | 8,160,749 | 7,973,432 |
| Construction-in-progress | 561,723 | - |
| Total | 42,311,269 | 41,500,182 |
| Less: accumulated depreciation and amortization | (34,811,445) | (33,109,126) |
| Property and equipment, net | \$ 7,499,824 | \$ 8,391,056 |

THE TECH MUSEUM OF INNOVATION

Notes to Financial Statements

June 30, 2008

Note 6 - Temporarily restricted net assets:

Temporarily restricted net assets were available for the following purposes at June 30:

| | <u>2008</u> | <u>2007</u> |
|---|----------------------|----------------------|
| Use of facilities | \$ 21,748,102 | \$ 21,841,746 |
| Special projects | 3,717,907 | 1,252,983 |
| Operations | <u>710,027</u> | <u>874,502</u> |
| Total temporarily restricted net assets | \$ <u>26,176,036</u> | \$ <u>23,969,231</u> |

Note 7 - Temporarily restricted net assets released from restrictions:

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes as follows during the years ended June 30:

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Use of facilities | \$ 1,404,000 | \$ 1,404,000 |
| Educational programs | 1,667 | 96,928 |
| Special projects | 638,600 | 457,072 |
| Operations | <u>1,748,686</u> | <u>872,022</u> |
| Total temporarily restricted net assets | \$ <u>3,792,953</u> | \$ <u>2,830,022</u> |

Note 8 - Permanently restricted net assets:

Permanently restricted net assets consist of endowment fund investments that represent the principle amounts of gifts and bequests accepted with donor stipulation that the principal be maintained intact in perpetuity, with only the income to be utilized for operations.

The change in permanently restricted net assets is as follows at June 30:

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|-----------------------|
| Release from restriction with donor consent | \$ (140,000) | \$ (1,500,000) |
| Restricted pledges received | - | 15,500 |
| Pledges deemed uncollectible and present value adjustment | <u>(49,378)</u> | <u>(74,011)</u> |
| Change in permanently restricted net assets | \$ <u>(189,378)</u> | \$ <u>(1,558,511)</u> |

During 2008, one donor released their restriction on \$140,000 of prior year contributions. During 2007, two donors released their restrictions on \$1,500,000 of prior year contributions.

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June 30, 2008

Note 9 - Related party transactions:

The Tech's volunteer members of the Board of Directors are active in oversight of fundraising events, activities and in making private contributions. Contributions received from the Board of Directors or from companies with which the Board of Directors are affiliated were approximately \$4,693,000 and \$2,593,000 for the years ended June 30, 2008 and 2007, respectively.

Of the total pledges receivable, net, and other receivables amounts due from the Board of Directors or from companies with which the Board of Directors are affiliated were approximately \$578,000 and \$187,000 at June 30, 2008 and 2007, respectively.

The Tech has a less than 10% investment in a partnership in which one of the members of the Board of Directors is an owner. The fair value of this investment was \$584,526 and \$550,742 at June 30, 2008 and 2007, respectively.

During 2008, The Tech entered into a two year contract, valued at approximately \$400,000, with an outside company for design consulting work on a comprehensive corporate identity program. This contract was awarded after a competitive bid process was completed and approved by The Tech's Board of Directors. The sole owner of the outside company, the spouse of The Tech's President, does not report to management of The Tech, but to a member of The Tech's Board of Directors. The Tech's President recused himself from the Board's discussion and vote on such contract. The Tech has entered into a sub-lease agreement with the company for an undefined period of time. In lieu of rent, The Tech receives \$1,000 a month for common area maintenance expenses.

Note 10 - Loan payable:

Loan payable represents a financing arrangement with Premium Financing Specialists of California, Inc., for The Tech's insurance premiums. The loan bears an interest rate of 7.5% and requires monthly payments of approximately \$14,000. At June 30, 2007, the outstanding balance on this loan was \$27,173 which was completely paid off at June 30, 2008.

Note 11 - Line of credit:

The Tech has a line of credit agreement, expiring November 30, 2008, with Bank of America. Borrowings under the agreement bear interest at the bank's prime rate (5.00% at June 30, 2008). The Tech had a line of credit agreement, expiring October 15, 2007, with Bank of America. Borrowings under the agreement bore interest at the bank's prime rate (8.25% at June 30, 2007). At June 30, 2008 and 2007, there were no outstanding balances.

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Notes to Financial Statements

June 30, 2008

Note 12 - Major contributions:

For the year ended June 30, 2008, nine donors accounted for 51% of contributed support. For the year ended June 30, 2007, eight donors accounted for 43% of contributed support.

Note 13 - Retirement plan:

The Tech provides a defined contribution plan for all full-time employees. The plan provides for employee contributions plus employer contributions at The Tech's discretion. The Tech did not make any contributions for the years ended June 30, 2008 and 2007.

In 1999, The Tech initiated a Key Employee Option Plan whereby selected employees enter into pre-tax compensation reduction option agreements with The Tech, concurrent with being awarded non-qualified options to purchase shares in a fund. The number of non-qualified options granted is based on actual compensation reduction amounts assuming a 25% discount from fair market value to be paid upon exercise. The fund is comprised of two mutual funds and had a fair value of \$24,728 and \$28,425 at June 30, 2008 and 2007, respectively. The fund was created with the monies contributed by The Tech and employees as specified in their respective compensation reduction option agreements.

Employees may exercise their options on or after the first January 1 following the first anniversary of their compensation reduction option agreement. The exercise price per share of the shares to be purchased is 25% of the lesser of the Exercise Rate Fair Market Value or the Grant Date Fair Market Value increased by 7% per year from the grant date, compounded annually. The fair market value shall be based on prices reported on an established recognized stock exchange, unless the shares are not publicly traded, in which case it shall be determined by the Executive Committee of the Board of Directors of The Tech. In 1999, The Tech had awarded options to four employees, all of which were exercisable, and, subsequently, froze participation in the plan. During 2008, no employees exercised previously awarded options. During 2007, two employees exercised previously awarded options. Included in accrued expenses at June 30, 2008 and 2007 are \$18,545 and \$21,319, respectively, associated with this plan.

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Notes to Financial Statements

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Note 14 - Commitments:

The Tech is obligated under non-cancelable operating leases for equipment and facility space, which expire in October 2008 through April 2010.

The schedule of future minimum lease payments payable under its non-cancelable leases is as follows:

| <u>Years Ending June 30,</u> | <u>Amount</u> |
|----------------------------------|-------------------|
| 2009 | \$ 128,732 |
| 2010 | <u>52,000</u> |
| | <u>\$ 180,732</u> |

Rental expenses under the above leases were approximately \$253,000 and \$277,000 for the years ended June 30, 2008 and 2007, respectively.

The Tech has a 10-year lease commitment for the IMAX Theater, expiring in October 2008, and elected to prepay the minimum lease value in 1998. The lease was renegotiated in March of 2008 and the term extended through October 2011, and included prepayment of the minimum lease value. The Tech is amortizing the prepayments over the terms of the leases and recognizes lease expense annually, through 2011. For the years ended June 30, 2008 and 2007, the amortization was \$203,526 and \$230,800, respectively. The Tech is subject to additional rent payments based on 7% of annual gross revenues over \$2,000,000 from the IMAX Theater for the period ending October 2008, and 4% of annual gross revenues over \$3,000,000 from the IMAX Theater for the period November 2008 through October 2011. The Tech did not incur any additional rent for the years ended June 30, 2008 and 2007.

Included in the commitments above is a maintenance agreement related to the IMAX theater equipment lease, which requires a minimum of approximately \$81,000 in maintenance each year, adjusted quarterly by the consumer price index, over the term of the original 10-year lease expiring October 2008. The lease was renegotiated in March of 2008 and the term extended through October 2011. The Tech prepaid the maintenance lease requirement of \$221,950 and will amortize this prepayment over the extended term of the lease through October 2011.