The Tech Museum

Financial Statements

June 30, 2011
(With Comparative Totals for 2010)

Frank, Rimerman + Co. LLP

Certified
Public
Accountants

New York
Palo Alto
San Francisco
San Jose
St. Helena

Board of Directors
The Tech Museum
San Jose, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of The Tech Museum (the Organization) as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Organization's June 30, 2010 financial statements. The 2010 financial statements were audited by other accountants, and in their report dated November 22, 2010, they expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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 Tech Museum as of June 30, 2011, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Frank, Rimerman + Co. LLP

November 22, 2011

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The Tech Museum
Statement of Financial Position
June 30, 2011 (with Comparative Totals for 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2011 Total	June 30, 2010 Total
ASSETS					
Cash and Cash Equivalents	$ 396,078	$ -	$ -	$ 396,078	$ 986,513
Grants and Other Receivables	190,487	936,367	-	1,126,854	1,679,340
Pledges Receivable, net of discount and allowance for doubtful accounts of $52,000 ($26,000 in 2010)	-	1,408,506	11,000	1,419,506	1,209,909
Prepaid Expenses and Other Assets	205,772	-	-	205,772	278,453
Investments	360,967	2,980,477	12,704,706	16,046,150	14,603,482
Property and Equipment, net	5,732,342	-	-	5,732,342	5,502,896
Beneficial Interest in Use of Facility, net	-	21,432,562	-	21,432,562	21,543,927
Total assets	$ 6,885,646	$ 26,757,912	$ 12,715,706	$ 46,359,264	$ 45,804,520
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	$ 194,486	$ -	$ -	$ 194,486	$ 627,377
Accrued expenses	456,378	-	-	456,378	486,444
Deferred revenue	339,039	-	-	339,039	473,403
Capital lease obligation	31,236	-	-	31,236	40,500
Total liabilities	1,021,139	-	-	1,021,139	1,627,724
Commitments (Notes 4 and 8)					
Net Assets					
Unrestricted	5,864,507	-	-	5,864,507	3,877,520
Temporarily restricted	-	26,757,912	-	26,757,912	27,613,570
Permanently restricted	-	-	12,715,706	12,715,706	12,685,706
Total net assets	5,864,507	26,757,912	12,715,706	45,338,125	44,176,796
Total liabilities and net assets	$ 6,885,646	$ 26,757,912	$ 12,715,706	$ 46,359,264	$ 45,804,520

See Notes to Financial Statements

The Tech Museum
Statement of Activities
Year Ended June 30, 2011 (with Comparative Totals at June 30, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended June 30, 2011 Total	Year Ended June 30, 2010 Total
Revenues and Other Support					
Public support	$ 1,300,000	$ -	$ -	$ 1,300,000	$ 1,300,000
Contributed support	2,025,508	3,097,906	30,000	5,153,414	7,493,476
In-kind contributions	1,242,108	-	-	1,242,108	273,428
Donated use of facilities	1,292,636	-	-	1,292,636	1,298,939
Admissions and fees	3,289,350	-	-	3,289,350	3,118,056
Store revenue	348,899	-	-	348,899	351,228
Investment income	1,779,938	688,892	-	2,468,830	1,314,096
Rental and other income	903,171	-	-	903,171	781,152
Net assets released from restrictions	4,642,456	(4,642,456)	-	-	-
Total revenues and other support	16,824,066	(855,658)	30,000	15,998,408	15,930,375
Expenses					
Program services					
Exhibits, programs and experiences	8,624,685	-	-	8,624,685	7,726,547
Education	938,532	-	-	938,532	986,592
Visitor services	1,356,299	-	-	1,356,299	1,477,424
Support services					
Fundraising and membership	1,934,774	-	-	1,934,774	1,570,674
General and administrative					
Marketing	744,583	-	-	744,583	1,007,946
Administration	1,238,206	-	-	1,238,206	1,279,386
Total expenses	14,837,079	-	-	14,837,079	14,048,569
Change in Net Assets	1,986,987	(855,658)	30,000	1,161,329	1,881,806
Net Assets, beginning of year	3,877,520	27,613,570	12,685,706	44,176,796	42,294,990
Net Assets, end of year	$ 5,864,507	$ 26,757,912	$ 12,715,706	$ 45,338,125	$ 44,176,796

See Notes to Financial Statements

The Tech Museum
Statement of Functional Expenses
Year Ended June 30, 2011 (with Comparative Totals for 2010)

	Programs				Support Services				Year Ended	Year Ended
						General and Administrative				
	Exhibits, Programs and Experiences	Education	Visitor Services	Total Program Services	Fundraising and Membership	Marketing	Administration	Total Support Services	June 30, 2011 Total	June 30, 2010 Total
Salaries	$ 1,765,101	$ 389,631	$ 877,018	$ 3,031,750	$ 529,674	$ 237,859	$ 683,305	$ 1,450,838	$ 4,482,588	$ 4,324,890
Payroll Taxes	123,818	20,938	55,931	200,687	37,097	24,189	41,544	102,830	303,517	265,159
Benefits	129,293	38,578	72,736	240,607	37,300	3,989	18,576	59,865	300,472	454,648
Professional Fees	80,540	61,397	5,327	147,264	196,410	50,480	274,366	521,256	668,520	749,529
Materials and Supplies	266,603	54,310	148,632	469,545	24,488	44,036	54,749	123,273	592,818	354,134
Advertising and Public Relations	373,059	3,000	12,556	388,615	3,619	234,980	-	238,599	627,214	593,242
Fees and Services	761,790	43,214	38,295	843,299	33,159	-	35,935	69,094	912,393	1,052,347
Royalties	330,090	-	-	330,090	-	-	-	-	330,090	287,798
Bankcard Fees	120,012	-	-	120,012	-	-	-	-	120,012	100,905
In-kind Contributions	-	-	-	-	566,547	100,000	-	666,547	666,547	273,428
Travel and Transportation	11,219	31,973	3,888	47,080	9,378	6,971	30,355	46,704	93,784	37,619
Occupancy	1,054,745	78,819	33,780	1,167,344	19,834	9,917	9,917	39,668	1,207,012	1,207,729
Building and Equipment Rental	281,413	34,875	-	316,288	-	-	-	-	316,288	305,550
Depreciation	971,494	26,678	29,376	1,027,548	14,952	14,952	20,933	50,837	1,078,385	1,090,372
Donated Rent	1,224,051	91,359	39,154	1,354,564	24,718	12,359	12,359	49,436	1,404,000	1,404,000
Tech Awards	1,070,169	-	-	1,070,169	381,577	-	-	381,577	1,451,746	1,336,650
Other	61,288	63,760	39,606	164,654	56,021	4,851	56,167	117,039	281,693	210,569
Total expenses	$ 8,624,685	$ 938,532	$ 1,356,299	$ 10,919,516	$ 1,934,774	$ 744,583	$ 1,238,206	$ 3,917,563	$ 14,837,079	$ 14,048,569
Percent of Total Expenses	59%	6%	9%	74%	13%	5%	8%	26%	100%	

See Notes to Financial Statements

The Tech Museum
Statement of Cash Flows
Year Ended June 30, 2011 (with Comparative Totals for 2010)

	2011	2010
Cash Flows from Operating Activities		
Change in net assets	$ 1,161,329	$ 1,881,806
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,078,387	1,090,373
In-kind donation of property and equipment	(480,684)	-
In-kind rent expense related to promised use of facility, net	111,365	105,061
Net realized and unrealized gain on investments	(2,237,758)	(1,037,980)
Provision for uncollectible receivables	25,920	3,380
Discount on pledges receivable	(517)	9,513
Loss on disposition of property and equipment	24,215	-
Changes in operating assets and liabilities:		
Grants and other receivables	552,486	(214,065)
Pledges receivable	(235,000)	(930,749)
Prepaid expenses and other assets	72,681	190,862
Accounts payable and accrued expenses	(462,957)	350,729
Deferred revenue	(134,364)	178,583
Net cash provided by (used in) operating activities	(524,897)	1,627,513
Cash Flows from Investing Activities		
Net proceeds from sale of investments	1,665,718	2,114,000
Purchase of investments	(870,628)	(3,371,433)
Purchase of property and equipment	(851,364)	(557,558)
Net cash used in investing activities	(56,274)	(1,814,991)
Cash Flows from Financing Activities		
Payments on capital lease obligation	(9,264)	(7,630)
Net cash used in financing activities	(9,264)	(7,630)
Net decrease in cash and cash equivalents	(590,435)	(195,108)
Cash and Cash Equivalents, beginning of year	986,513	1,181,621
Cash and Cash Equivalents, end of year	$ 396,078	$ 986,513

	2011	2010
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Equipment financed through a capital lease obligation	$ -	$ 48,130

See Notes to Financial Statements

1. Nature of Activities

The Tech Museum of Innovation (the Organization), formally doing business as "The Tech Museum," is a nonprofit public benefit corporation. The purpose of the Organization is to engage people of all ages and backgrounds in science and technology experiences that educate, inform, provoke thought, and inspire action. The Organization does this with exhibits and programs that feature the Spirit of Silicon Valley, celebrating the people and inventions that make this region the leading source of innovation.

The Organization offers not only more than 200 interactive exhibits, but also 12 hands-on science labs, after-school activities, and standards-based educational IMAX films. Additionally, the Organization hosts two annual signature programs. The Tech Challenge is a team competition that inspires over 1,000 students in grades 5-12 to design and build devices that solve a real world problem. For the past 24 years, The Tech Challenge has reached out to different 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 Awards, which commenced in 2001, is an international program that identifies and honors individuals and teams who develop technological solutions to humanity's most pressing problems.

The Organization's staff and volunteers welcome approximately 500,000 visitors annually to the permanent galleries and traveling exhibitions. They also assist visitors with ticketing, choosing programs, and assessing educational opportunities such as IMAX film presentations. More than 15,000 members help support the museum, including more than 5,000 local educators.

2. Significant Accounting Policies

Basis of Presentation:

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

2. Significant Accounting Policies (continued)

Basis of Presentation: (continued)

The Organization segregates its assets and liabilities, and operations into three categories: unrestricted, temporarily restricted and permanently restricted. The Organization's net assets and changes therein are classified and reported as follows:

> Unrestricted net assets 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.
>
> Temporarily restricted net assets are those whose use is restricted by the donor based on time or purpose. Generally these funds will be expended for a specified purpose or for a period of time and not currently available for general use. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.
>
> Permanently restricted net assets are assets restricted by the donor in perpetuity. These assets consist of investments and pledges receivable. Income from these assets is recorded as unrestricted or temporarily restricted net assets unless otherwise permanently restricted by donor stipulations.

Reclassifications:

Certain reclassifications have been made to prior year balances to conform with current year presentation.

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 and expenses in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Significant Accounting Policies (continued)

Revenue Recognition:

The Organization recognizes grants, contributions and unconditional promises to give (pledges) as revenue at their fair value in the period the donor makes the contribution or pledge that is, in substance, unconditional. Conditional promises to give and support are not recognized until the conditions are met. The Organization distinguishes among contributions that increase any of the three categories of net assets, 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 year 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.

In-Kind Donations:

The Organization records various types of in-kind donations including professional services, tangible assets and the use of 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, or the use thereof, are recognized when promised or received, whichever is earlier. The amounts reflected in the accompanying financial statements as in-kind donations are offset by like amounts of expenses or in the case of long-term assets, over the period benefited. Additionally, the Organization 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 contributed time has not been determined and is not reflected in the accompanying financial statements.

Cash Equivalents:

The Organization considers all short-term, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2011 and 2010, cash equivalents consist of money market funds.

2. Significant Accounting Policies (continued)

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.

Investments in private equity 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 values 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 at the Organization's percentage interest owned in these funds. 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 securities existed, and the differences could be material.

Income and gains on restricted investments are reported as increases in unrestricted or temporarily restricted net assets unless otherwise restricted by the donor.

Concentrations of Credit Risk:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents, investments, pledges receivable and other receivables. The Organization's checking account is non-interest bearing and, therefore, is currently insured by the Federal Deposit Insurance Corporation with no limit. The Organization's investment balances exceed the limit insured by the Securities Investor Protection Corporation. The Organization's investment portfolio is managed by the Organization's Board of Directors.

Receivables are generally from local donors and these donors' credit worthiness is evaluated by the Organization on a regular basis. The Organization makes judgments as to the ability to collect all of its outstanding receivables and provides allowances for amounts when collection becomes doubtful. The Organization has a general provision for doubtful receivables, but it is the Organization's opinion that it is not exposed to significant credit risks in relation to these receivables.

2. Significant Accounting Policies (continued)

Property and Equipment:

The Organization capitalizes property and equipment acquisitions over $3,000. Purchased property and equipment are recorded at cost. Donated property 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 twenty years. Leasehold improvements are amortized over the shorter of the asset life or the remaining lease term.

Gifts of property and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions 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 temporarily restricted support. 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.

Accounting for Impairment of Long-Lived Assets:

The Organization 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 Organization measures any impairment based on projected discounted cash flows using a discount rate commensurate with the risk inherent in its current operation model. To date, the Organization has not recorded any impairment of its long-lived assets.

Income Taxes:

The Organization 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 Organization 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 Organization does not believe it has UBTI that should have been reported for tax purposes.

2. Significant Accounting Policies (continued)

Income Taxes: (continued)

The Organization applies the provisions set forth in Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740 to account for uncertainty in income taxes. The Organization assessed all income tax positions taken where the statute of limitation remained open. The Organization believes that its tax filing positions will be sustained upon tax examinations; therefore, no liability for unrecognized income tax benefits has been recorded at June 30, 2011. The Organization 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 Organization's various programs and services have been summarized on a functional basis in the Statement of Functional Expenses. Directly identifiable expenses are charged to the related program or service benefited. Indirect expenses are allocated to programs and services based principally on the percentage of personnel time spent in each area or square footage utilized by the program or service.

Certain costs incurred for the Tech Awards Gala are considered to be joint costs. These costs have been allocated to the Tech Awards program ($249,000), which is included in exhibits, programs and experiences, and to fundraising and membership ($83,000) in the 2011 Statement of Functional Expenses.

Comparative Financial Information:

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Advertising:

Costs associated with advertising are expensed when incurred. Advertising expenses were $873,000 in 2011 ($494,000 in 2010).

3. Pledges Receivable

Pledges receivable that are not due within one year are recorded after discounting future cash flows to present value using discount rates of 2.8% to 4.25%. The following table represents amounts to be received:

Year ending June 30,

2012	$ 414,000
2013	412,000
2014	392,000
2015	242,000
2016	41,000
Thereafter	55,000
Subtotal	1,556,000
Less: allowance for doubtful accounts	(52,000)
Less: unamortized discount to present value	(84,000)
Net pledges receivable	$ 1,420,000

4. Investments and Fair Value Measurements

Investments consist of the following at June 30:

	2011	2010
Unrestricted and temporarily restricted investments:		
Certificates of deposit	$ 2,966,604	$ 3,628,148
Money market funds	10,022	10,022
Equity funds	364,818	-
Total	$ 3,341,444	$ 3,638,170
Permanently restricted investments:		
Certificates of deposit	$ 47,638	$ 143,723
Equity funds	11,731,964	10,312,931
Venture capital funds and partnerships	925,104	508,658
Total	$ 12,704,706	$ 10,965,312

4. Investments and Fair Value Measurements (continued)

Investment income represents earned income and gains and losses, net of investment management expenses. Realized gains and losses on investments are calculated as the difference between proceeds received and the original cost of the investment. Unrealized gains and losses represent the difference between the current fair value of the investments and their cost basis if purchased during the year, or their fair value at the beginning of the year.

Investment income and net gains and losses are comprised of the following for the years ended June 30:

	2011	2010
Interest and dividends	$ 297,488	$ 318,803
Net realized and unrealized gains	2,228,126	1,036,023
Investment management expenses	(56,784)	(40,730)
	$ 2,468,830	$ 1,314,096

The Organization categorizes its investments into a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The Organization 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 securities are not necessarily an indication of the risk associated with investing in those securities.

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

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: 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 financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An investment’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

4. Investments and Fair Value Measurements (continued)

In January 2010, the Financial Accounting Standards Board issued Accounting Standard Update No. 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06) to add new disclosures about investment transfers into and out of Level 1 and 2 measurements and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. Effective July 1, 2010, the Organization adopted ASU 2010-06, except for the Level 3 disclosures, which are effective for annual periods beginning after December 15, 2010. The Organization does not expect these additional disclosures to have a material impact on its financial statements.

Investments at fair value at June 30, 2011 are as follows:

Investments	Level 1	Level 3	Total
Certificates of deposit	$ 3,014,242	$ -	$ 3,014,242
Money market funds	10,022	-	10,022
Equity funds	-	12,096,782	12,096,782
Venture capital funds and partnerships	-	925,104	925,104
Total	$ 3,024,264	$ 13,021,886	$ 16,046,150

Investments at fair value at June 30, 2010 are as follows:

Investments	Level 1	Level 3	Total
Certificates of deposit	$ 3,771,871	$ -	$ 3,771,871
Money market funds	10,022	-	10,022
Equity funds	-	10,312,931	10,312,931
Venture capital funds and partnerships	-	508,658	508,658
Total	$ 3,781,893	$ 10,821,589	$ 14,603,482

The Organization's investment in equity funds includes four funds offered by the same investment firm. The four funds are comprised of cash and cash equivalents, common stock, equities and a wide range of other investment categories, with varying levels of marketability. The redemption frequency of these funds ranges from weekly to monthly, with five business days notice.

4. Investments and Fair Value Measurements (continued)

The table below includes a summary of activity for investments classified by the Organization within Level 3 of the fair value hierarchy, including the change in fair value, for the years ended June 30, 2011 and 2010. When a determination is made to classify an investment within Level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. However, Level 3 investments typically include, in addition to the unobservable Level 3 inputs, observable components (that is, components that are actively quoted or can be validated to market-based sources). The gains and losses in the table below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

Fair Value, June 30, 2009	$ 9,202,437
Net realized and unrealized gain included in the Statement of Activities	1,245,670
Net purchases, issuances and settlements	373,482
Fair Value, June 30, 2010	10,821,589
Net realized and unrealized gain included in the Statement of Activities	2,239,616
Net purchases, issuances and settlements	(39,319)
Fair Value, June 30, 2011	$ 13,021,886

For Level 3 investments, which do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company, the Organization uses the net asset value method to determine the fair value of the investment. Significant portions of the assets comprising the value of the Organization's Level 3 investments are investments that are not readily marketable. As a result, the fair values of these portfolio investments recorded in the financial statements have been estimated by the fund managers and general partners of these private equity funds and partnerships based on a variety of factors deemed relevant by the fund manager or general partner.

While the fund managers or general partners believe their valuation methods 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 non-marketable investments could result in a different estimate of fair value at the 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.

4. Investments and Fair Value Measurements (continued)

Distributions from the private equity funds and partnerships are received through the liquidation of its underlying assets. At June 30, 2011, some of the Organization's Level 3 investments have varying redemption options to provide the Organization with liquidity, either quarterly or annually.

The Organization has commitments to invest additional capital to fund certain of its Level 3 investments. At June 30, 2011, the Organization had future capital call commitments of $496,000, which are payable when required by the fund manager or general partner.

5. Property and Equipment

Property and equipment consist of the following at June 30:

	2011	2010
Exhibits	$ 19,818,867	$ 24,383,674
Building and leasehold improvements	9,966,579	10,007,454
Equipment	7,413,267	8,221,294
Construction in progress	242,654	638,038
	37,441,367	43,250,460
Accumulated depreciation and amortization	(31,709,025)	(37,747,564)
Property and equipment, net	$ 5,732,342	$ 5,502,896

Museum exhibits are generally constructed by the Organization and consist of materials, supplies, salaries and related benefits. Exhibits under construction are recorded as construction in progress, which are recorded as exhibits and depreciated when placed in service.

6. Beneficial Interest in Use of Facility

In 1998, the Organization entered into a 55 year agreement with the City of San Jose to lease its primary facility for $1 per year. The Organization 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:

	2011	2010
Total benefit in interest in use of facility	$ 59,670,000	$ 61,074,000
Less discount at 6% to net present value	(38,237,438)	(39,530,073)
Net beneficial interest in use of facility	$ 21,432,562	$ 21,543,927

The following amounts have been recognized in the Statements of Activities in connection with the beneficial interest in use of facility for the years ended June 30:

	2011	2010
Rent expense	$ 1,404,000	$ 1,404,000
Amortization of discount	(1,292,635)	(1,298,939)
Net decrease in temporarily restricted net assets	$ 111,365	$ 105,061

7. Line of Credit

The Organization has an unsecured $2,000,000 line of credit with a bank, which the bank has extended annually. The line of credit expires in January 2012. Borrowings under the agreement bear interest at the bank's prime rate (3.25% at June 30, 2011). The Organization did not borrow against the line of credit in 2011 or 2010.

8. Lease Arrangements

Facility Leases:

The Organization leased several facilities during 2011 and 2010, generally on a short-term basis and for specific exhibits or events. Future minimum lease payments under the leases are $39,000 in 2012.

The Organization leases an IMAX theatre under a non-cancelable lease. The lease was scheduled to expire in October 2011, but was subsequently renewed through October 2012. The Organization prepaid the total rent expense to be incurred over the lease term, which is being amortized to rent expense. The lease also includes a maintenance agreement, which requires the Organization to incur a minimum amount of maintenance expense annually. The Organization prepaid the maintenance lease requirement, which is being amortized to occupancy expense over the lease term. The Organization is also subject to additional rent based on 7% of annual gross revenues earned from the theatre over $2,000,000 and 4% of annual gross revenues over $3,000,000. The Organization did not incur any additional rent in 2011 or 2010. Total rent expense under the lease was $316,000 in 2011 ($293,000 in 2010). Total maintenance expense under the lease was $80,000 in both 2011 and 2010.

As of June 30, 2011, the balance of the prepaid rent and prepaid maintenance was $31,000 and $27,000, respectively ($124,000 and $107,000, respectively, at June 30, 2010).

Capital Lease:

In 2010, the Organization purchased $48,000 of equipment under a capital lease arrangement. The lease requires monthly principal and interest payments, with interest at 3% per annum, through August 2014.

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

Year ending June 30,	
2012	$ 10,400
2013	10,400
2014	10,400
2015	1,700
Total lease payments	32,900
Less: amount representing interest	(1,664)
Capital lease obligation	$ 31,236

9. Employee Retirement Plans

Defined Contribution Retirement Plan:

The Organization has a defined contribution retirement plan for employees meeting certain employment service requirements. Eligible employees may elect to contribute to the plan and the Organization may make qualified non-elective discretionary contributions. The Organization did not make any contributions to the plan in 2011 or 2010.

Deferred Compensation Plan:

In 1999, the Organization initiated a key employee option plan (the Option Plan) whereby selected employees entered into pre-tax compensation reduction option agreements with the Organization, concurrent with being awarded non-qualified options to purchase shares in a fund. The number of options granted was based on actual compensation reduction amounts assuming a 25% discount from fair market value to be paid upon exercise of the options. The fund is comprised of two mutual funds and had a fair value of $10,000 at June 30, 2011 and 2010. The fund was created with monies contributed by the Organization and employees as specified in their respective compensation reduction agreements. In 1999, the Organization awarded options to four employees, all of which were exercisable. The Organization subsequently froze participation in the Option Plan. In 2010, one employee exercised previously awarded options. Accrued expenses at June 30, 2011 and 2010 include $8,000 associated with the Option Plan.

10. Net Assets

Temporarily restricted net assets are restricted by donors for the purposes and periods described below. Temporarily restricted net assets consist of the following at June 30:

	2011	2010
Beneficial interest in use of facility (time restriction)	$ 21,432,562	$ 21,543,927
Special projects (time and purpose restrictions)	1,103,751	2,237,896
Operations (time and purpose restrictions)	1,512,834	1,631,639
Receivables (time and purpose restrictions)	2,344,873	2,200,108
Undesignated endowment income (time restriction)	363,892	-
	$ 26,757,912	$ 27,613,570

10. Net Assets (continued)

Permanently restricted net assets of $12,715,706 at June 30, 2011 ($12,685,706 at June 30, 2010) consist of investments held in perpetuity and a pledge receivable.

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 the years ended June 30:

	2011	2010
Beneficial interest in use of facility (time restriction)	$ 111,365	$ 105,061
Special projects (time and purpose restrictions)	1,352,277	1,388,482
Operations (time and purpose restrictions)	2,853,814	1,824,287
Designated endowment income (time restriction)	325,000	-
	$ 4,642,456	$ 3,317,830

12. Endowment

The Organization's endowment consists of contributions receivable or received, which are permanently restricted 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.

The Organization's Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. Once appropriated, these amounts are classified as unrestricted net assets.

12. Endowment (continued)

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund;
(2) The purposes of the Organization 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 Organization;
(7) The Organization's investment policies.

Endowment net assets consist of the following at June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	$ -	$ -	$ 12,715,706	$ 12,715,706
Undesignated Endowment Income	-	363,892	-	363,892
Designated Endowment Income	325,000	-	-	325,000
	$ 325,000	$ 363,892	$ 12,715,706	$ 13,404,598

Endowment net assets consist of the following at June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	$ -	$ -	$ 12,685,706	$ 12,685,706

12. Endowment (continued)

The Organization has adopted an investment policy for endowment assets with the primary objectives to preserve the real purchasing power of the principal and to 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 (CPI) over a rolling five year period. Additionally, the returns should show favorable, relative performance characteristics.

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

In prior years, the Organization allocated unrealized losses on its endowment investments that would have reduced the fair value of the investments below their cost in order to preserve donor contributions. At June 30, 2011, the fair value of endowment investments exceeded their cost by $688,892. Unrealized gains in 2011 on the endowment investments have been classified as temporarily restricted net assets, with the exception of the amount appropriated for expenditure, which was $325,000. This appropriation was in accordance with the Organization's policy.

13. Related Parties

The Organization's Board of Directors (the 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 $3,176,000 in 2011 ($3,742,000 in 2010). Amounts due from the Board and affiliates are $1,542,000 at June 30, 2011 ($1,069,000 at June 30, 2010).

14. Subsequent Events

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