# The Tech Interactive

## Financial Statements

## June 30, 2023 and 2022

Frank, Rimerman + Co. LLP

Certified
Public
Accountants

Audit Committee
Board of Directors
The Tech Interactive
San Jose, California

INDEPENDENT AUDITORS' REPORT

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying financial statements of the Tech Interactive (The Tech), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Tech as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of The Tech and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Tech's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Tech's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Tech's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Frank, Rimerman & Co. LLP

San Jose, California
November 2, 2023

**The Tech Interactive**
**Statements of Financial Position**

| | June 30, 2023 | | | June 30, 2022 | | |
|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| ASSETS | | | | | | |
| Cash and Cash Equivalents | $ 1,929,602 | $ 2,118,990 | $ 4,048,592 | $ 2,491,303 | $ 756,323 | $ 3,247,626 |
| Grants and Other Receivables | 18,165 | 211,972 | 230,137 | 19,741 | 265,000 | 284,741 |
| Pledges Receivable, net | - | 2,104,137 | 2,104,137 | 287 | 2,602,206 | 2,602,493 |
| Prepaid Expenses and Other Assets | 86,494 | - | 86,494 | 94,689 | - | 94,689 |
| Investments | 4,323,141 | 27,841,883 | 32,165,024 | 2,883,927 | 31,872,250 | 34,756,177 |
| Operating Lease Right of Use Assets | 1,597,125 | - | 1,597,125 | - | - | - |
| Property, Exhibits and Equipment, net | 5,886,720 | - | 5,886,720 | 6,374,240 | - | 6,374,240 |
| Beneficial Interest in Use of Facilities, net | - | 41,224,685 | 41,224,685 | - | 41,623,205 | 41,623,205 |
| Total assets | $ 13,841,247 | $ 73,501,667 | $ 87,342,914 | $ 11,864,187 | $ 77,118,984 | $ 88,983,171 |
| LIABILITIES AND NET ASSETS | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | $ 59,737 | $ - | $ 59,737 | $ 131,699 | $ - | $ 131,699 |
| Accrued expenses | 1,574,014 | - | 1,574,014 | 1,161,470 | - | 1,161,470 |
| Deferred revenue | 282,850 | - | 282,850 | 225,065 | - | 225,065 |
| Operating lease liabilities | 428,632 | - | 428,632 | - | - | - |
| Total current liabilities | 2,345,233 | - | 2,345,233 | 1,518,234 | - | 1,518,234 |
| Operating Liabilities, net of current portion | 1,170,966 | - | 1,170,966 | - | - | - |
| Commitments (Notes 5, 9 and 10) | | | | | | |
| Net Assets | | | | | | |
| Without donor restrictions | 10,325,048 | - | 10,325,048 | 10,345,953 | - | 10,345,953 |
| With donor restrictions | - | 73,501,667 | 73,501,667 | - | 77,118,984 | 77,118,984 |
| Total net assets | 10,325,048 | 73,501,667 | 83,826,715 | 10,345,953 | 77,118,984 | 87,464,937 |
| Total liabilities and net assets | $ 13,841,247 | $ 73,501,667 | $ 87,342,914 | $ 11,864,187 | $ 77,118,984 | $ 88,983,171 |

See Notes to Financial Statements

**The Tech Interactive**
**Statements of Activities**
**Years Ended June 30, 2023 and 2022**

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Support and Revenue | | | | | | |
| Public support | $ 3,718,847 | $ - | $ 3,718,847 | $ 3,607,245 | $ - | $ 3,607,245 |
| Contributions of cash and other financial assets | 2,189,178 | 7,314,208 | 9,503,386 | 5,183,774 | 4,500,568 | 9,684,342 |
| Contributions of nonfinancial assets | 1,068,252 | - | 1,068,252 | 1,432,886 | - | 1,432,886 |
| Admissions and fees | 2,159,571 | - | 2,159,571 | 1,299,228 | - | 1,299,228 |
| Rental and other income | 1,736,215 | - | 1,736,215 | 784,299 | - | 784,299 |
| Net assets released from restrictions | 12,044,452 | (12,044,452) | - | 8,039,764 | (8,039,764) | - |
| Total support and revenue | 22,916,515 | (4,730,244) | 18,186,271 | 20,347,196 | (3,539,196) | 16,808,000 |
| Expenses | | | | | | |
| Program services | | | | | | |
| Exhibits, programs and experiences | 11,194,932 | - | 11,194,932 | 10,593,022 | - | 10,593,022 |
| Education | 2,099,865 | - | 2,099,865 | 1,996,094 | - | 1,996,094 |
| Visitor services | 4,291,755 | - | 4,291,755 | 2,573,954 | - | 2,573,954 |
| Support services | | | | | | |
| Fundraising and membership | 1,874,985 | - | 1,874,985 | 1,598,491 | - | 1,598,491 |
| General and administrative | | | | | | |
| Marketing | 1,575,120 | - | 1,575,120 | 1,144,662 | - | 1,144,662 |
| Administration | 2,208,972 | - | 2,208,972 | 2,311,357 | - | 2,311,357 |
| Total expenses | 23,245,629 | - | 23,245,629 | 20,217,580 | - | 20,217,580 |
| Change in net assets from operations | (329,114) | (4,730,244) | (5,059,358) | 129,616 | (3,539,196) | (3,409,580) |
| Other Income (Expense), net | | | | | | |
| Investment return (loss), net | 308,209 | 1,112,927 | 1,421,136 | (115,049) | (1,272,633) | (1,387,682) |
| Forgiveness of government funded loan | - | - | - | 1,933,780 | - | 1,933,780 |
| Total other income (expense), net | 308,209 | 1,112,927 | 1,421,136 | 1,818,731 | (1,272,633) | 546,098 |
| Change in Net Assets | (20,905) | (3,617,317) | (3,638,222) | 1,948,347 | (4,811,829) | (2,863,482) |
| Net Assets, beginning of year | 10,345,953 | 77,118,984 | 87,464,937 | 8,397,606 | 81,930,813 | 90,328,419 |
| Net Assets, end of year | $ 10,325,048 | $ 73,501,667 | $ 83,826,715 | $ 10,345,953 | $ 77,118,984 | $ 87,464,937 |

**The Tech Interactive**
**Statement of Functional Expenses**
**Year Ended June 30, 2023**

| | Programs | | | | Support Services | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | General and Administrative | | | |
| | Exhibits, Programs and Experiences | Education | Visitor Services | Total Program Services | Fundraising and Membership | Marketing | Administration | Total Support Services | Total |
| Salaries | $ 3,966,517 | $ 1,214,322 | $ 2,358,438 | $ 7,539,277 | $ 938,288 | $ 554,193 | $ 968,045 | $ 2,460,526 | $ 9,999,803 |
| Payroll Taxes | 275,373 | 77,646 | 175,787 | 528,806 | 69,156 | 41,028 | 70,676 | 180,860 | 709,666 |
| Benefits | 213,170 | 70,568 | 153,600 | 437,338 | 64,722 | 50,615 | 116,046 | 231,383 | 668,721 |
| Professional Fees | 470,823 | 239,836 | 37,094 | 747,753 | 404,028 | 26,855 | 342,481 | 773,364 | 1,521,117 |
| Materials and Supplies | 503,679 | 22,990 | 295,823 | 822,492 | 20,736 | 6,574 | 46,099 | 73,409 | 895,901 |
| Advertising and Public Relations | 195,421 | 39,960 | 1,379 | 236,760 | 14,407 | 699,193 | 11,449 | 725,049 | 961,809 |
| Purchase Services | 992,379 | 111,815 | 506,006 | 1,610,200 | 29,172 | 25,294 | 36,422 | 90,888 | 1,701,088 |
| Royalties | 178,643 | - | - | 178,643 | - | - | - | - | 178,643 |
| In-Kind Expenses | 79,436 | - | - | 79,436 | - | - | - | - | 79,436 |
| Occupancy | 1,448,509 | 193,048 | 578,545 | 2,220,102 | 78,168 | 137,711 | 556,349 | 772,228 | 2,992,330 |
| Building and Equipment Rental | 270,491 | 100 | - | 270,591 | - | 105 | - | 105 | 270,696 |
| Depreciation and Amortization | 1,044,895 | 31,808 | 23,073 | 1,099,776 | 11,801 | 8,927 | 7,426 | 28,154 | 1,127,930 |
| Donated Rent | 1,224,049 | 68,519 | 62,011 | 1,354,579 | 37,066 | 12,355 | - | 49,421 | 1,404,000 |
| The Tech Challenge and Related Expenses | 235,783 | 12,616 | 19,647 | 268,046 | 179,367 | 9,191 | 22,521 | 211,079 | 479,125 |
| Insurance | 92,709 | 15,066 | 80,352 | 188,127 | 3,013 | 3,013 | 11,810 | 17,836 | 205,963 |
| Other | 3,055 | 1,571 | - | 4,626 | 25,061 | 66 | 19,648 | 44,775 | 49,401 |
| Total expenses | $ 11,194,932 | $ 2,099,865 | $ 4,291,755 | $ 17,586,552 | $ 1,874,985 | $ 1,575,120 | $ 2,208,972 | $ 5,659,077 | $ 23,245,629 |
| Percent of Total Expenses | 48% | 9% | 18% | 75% | 8% | 7% | 10% | 25% | 100% |

**The Tech Interactive**
**Statement of Functional Expenses**
**Year Ended June 30, 2022**

| | Programs | | | | Support Services | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | General and Administrative | | | |
| | Exhibits, Programs and Experiences | Education | Visitor Services | Total Program Services | Fundraising and Membership | Marketing | Administration | Total Support Services | Total |
| Salaries | $ 3,155,720 | $ 1,089,063 | $ 1,471,214 | $ 5,715,997 | $ 916,743 | $ 584,191 | $ 1,115,537 | $ 2,616,471 | $ 8,332,468 |
| Payroll Taxes | 222,802 | 76,336 | 107,962 | 407,100 | 65,177 | 40,896 | 71,713 | 177,786 | 584,886 |
| Benefits | 215,187 | 76,896 | 103,075 | 395,158 | 64,266 | 42,211 | 115,499 | 221,976 | 617,134 |
| Professional Fees | 1,225,316 | 184,090 | 8,289 | 1,417,695 | 162,438 | 46,395 | 315,378 | 524,211 | 1,941,906 |
| Materials and Supplies | 282,295 | 25,039 | 229,690 | 537,024 | 3,282 | 4,587 | 50,456 | 58,325 | 595,349 |
| Advertising and Public Relations | 237,229 | 8,857 | - | 246,086 | 22,622 | 165,582 | 17,002 | 205,206 | 451,292 |
| Purchase Services | 749,923 | 138,011 | 138,846 | 1,026,780 | 53,820 | 79,300 | 360,013 | 493,133 | 1,519,913 |
| Royalties | 145,364 | - | - | 145,364 | - | - | - | - | 145,364 |
| In-Kind Expenses | - | - | - | - | 73,206 | - | 95,989 | 169,195 | 169,195 |
| Occupancy | 1,394,771 | 258,305 | 370,159 | 2,023,235 | 48,533 | 131,155 | 126,404 | 306,092 | 2,329,327 |
| Building and Equipment Rental | 68,409 | - | - | 68,409 | 7,063 | 193 | - | 7,256 | 75,665 |
| Depreciation and Amortization | 1,532,123 | 46,640 | 33,832 | 1,612,595 | 17,304 | 13,090 | 10,889 | 41,283 | 1,653,878 |
| Donated Rent | 1,224,049 | 68,519 | 62,011 | 1,354,579 | 37,066 | 12,355 | - | 49,421 | 1,404,000 |
| The Tech Challenge and Related Expenses | 56,216 | 4,377 | 21,549 | 82,142 | 111,720 | 14,500 | 11,458 | 137,678 | 219,820 |
| Insurance | 82,786 | 19,961 | 27,161 | 129,908 | 3,702 | 10,163 | 9,743 | 23,608 | 153,516 |
| Other | 832 | - | 166 | 998 | 11,549 | 44 | 11,276 | 22,869 | 23,867 |
| Total expenses | $ 10,593,022 | $ 1,996,094 | $ 2,573,954 | $ 15,163,070 | $ 1,598,491 | $ 1,144,662 | $ 2,311,357 | $ 5,054,510 | $ 20,217,580 |
| Percent of Total Expenses | 52% | 10% | 13% | 75% | 8% | 6% | 11% | 25% | 100% |

See Notes to Financial Statements

**The Tech Interactive**
**Statements of Cash Flows**

| | Years Ended June 30, 2023 | Years Ended June 30, 2022 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Change in net assets | $ (3,638,222) | $ (2,863,482) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 1,127,930 | 1,653,878 |
| In-kind rent expense related to donated use of facilities | 398,520 | 388,800 |
| Net realized and unrealized (gain) loss on investments | (1,374,409) | 1,331,187 |
| Change in discount on pledges receivable | (21,931) | (56,021) |
| In-kind donation of property, exhibits and equipment | - | (293,535) |
| Amortization of operating lease right of use assets | 415,714 | - |
| Gain on forgiveness of government funded loan | - | (1,933,780) |
| Changes in operating assets and liabilities: | | |
| Grants and other receivables | 54,604 | 67,247 |
| Pledges receivable | 520,287 | 806,528 |
| Prepaid expenses and other assets | 8,195 | (10,534) |
| Accounts payable | (71,962) | 58,777 |
| Accrued expenses | 412,544 | 111,870 |
| Deferred revenue | 57,785 | 85,987 |
| Operating lease liabilities | (413,241) | - |
| Net cash used in operating activities | (2,524,186) | (653,078) |
| Cash Flows from Investing Activities: | | |
| Net proceeds from sale and distribution of investments | 11,083,587 | 9,736,985 |
| Purchase of investments | (7,118,025) | (8,209,047) |
| Purchase of property, exhibits and equipment | (640,410) | (247,231) |
| Net cash provided by investing activities | 3,325,152 | 1,280,707 |
| Cash Flows from Financing Activities: | | |
| Payments on capital lease obligation | - | (1,596) |
| Net cash used in financing activities | - | (1,596) |
| Net increase in cash and cash equivalents | 800,966 | 626,033 |
| Cash and Cash Equivalents, beginning of year | 3,247,626 | 2,621,593 |
| Cash and Cash Equivalents, end of year | $ 4,048,592 | $ 3,247,626 |

Supplemental Schedule of Non-Cash Investing and Financing Activities

| | 2023 | 2022 |
|---|---|---|
| Capitalization of operating lease right of use assets and lease liabilities upon adoption of new lease standard | $ 2,012,839 | $ - |

See Notes to Financial Statements

1. Nature of Activities

The Tech Interactive's (The Tech) mission is to inspire the innovator in everyone. The Tech accomplishes its mission by engaging visitors in hands-on learning experiences involving science and technology, through high-quality professional development for teachers and by making its facilities available for teacher training, and other community convening. Through its exhibits, programs and facilities, The Tech aims to inspire learning and invigorate innovation locally, nationally and globally.

The Tech's learning experiences include interactive exhibits, hands-on science labs, after-school activities and standards-based educational IMAX films. The Tech also hosts two annual signature programs. The Tech Challenge is a team competition inspiring thousands of students in grades 4-12 to design and build devices that solve a real-world problem. For 34 years, The Tech Challenge has connected with various ethnic and socioeconomic communities to introduce students not only to science, technology, engineering, and mathematics (STEM) concepts, but also to the thrill of hands-on learning and real-world design. The Tech for Global Good inspires young people to use technology to solve global challenges by connecting with people doing just that around the world.

The Tech hosts over 222,000 people a year in its galleries and programs and has approximately 2,900 member households.

2. Significant Accounting Policies

*Basis of Presentation:*

The Tech prepares its financial statements in accordance with accounting standards for not-for-profit organizations. The standards require not-for-profit organizations to segregate their net assets into two categories: without donor restrictions and with donor restrictions. Net assets without donor restrictions consist of net assets for which there are no donor-imposed restrictions, or for which the donor-imposed restrictions were temporary and expired during the current or previous years. Net assets with donor restrictions consist of amounts receivable or received that are restricted by the donor for specific purposes or for subsequent periods. Some contributions received from donors are required to be maintained in perpetuity, while others expire over time, or when the donor-imposed restriction is satisfied. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions.

2. Significant Accounting Policies (continued)

*Use of Estimates:*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 support, revenue and expenses in the financial statements and related disclosures. Significant estimates established by The Tech's management consist of the valuation of investments and the beneficial interest in use of facility. The values assigned to investments by management are considered to be the amounts that could be realized from an orderly sale or other disposition of the investments. The value assigned to the beneficial interest in use of facilities by management is considered to be the amount The Tech would otherwise be required to pay for use of the facilities. Actual results could differ from those estimates.

*Support:*

The Tech recognizes grants, contributions, and pledges as revenue in the period the donor makes a promise to give that is, in substance, unconditional. Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which revenue is received. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction as to time or use expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

*Revenue Recognition:*

The Tech determines revenue recognition for its revenue-producing activities under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (Topic 606) through the following steps:

- Identification of the contract or agreement with a customer or grantor
- Identification of the performance obligations in the contract or agreement
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract or agreement
- Recognition of revenue when, or as, The Tech satisfies a performance obligation

2. Significant Accounting Policies (continued)

*Revenue Recognition:* (continued)

Admission and fees are recognized as revenue when received. Membership dues are deferred upon receipt and recognized ratably over the membership period, generally for one to two years, following the period of receipt. Rental is income is recognized when events occur. Amounts received for services or events not yet provided are recorded as deferred revenue, a contract liability, and are recognized in the period in which the service is provided or the event takes place. Deferred revenue was $282,850 and $225,065 at June 30, 2023 and 2022, respectively. ($139,078 at June 30, 2021)

*Contributed Nonfinancial Assets:*

The Tech records various types of in-kind donations including professional services, tangible assets, use of tangible assets and marketable securities. The Tech's policy is to immediately sell donated marketable securities and account for the proceeds as contributed cash and other financial assets on the Statements of Activities. Contributed professional services are recognized at their fair value 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 at their fair value when promised or received, whichever is earlier. The amounts reflected in the 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.

The Tech received the following contributed nonfinancial assets for the year ended June 30:

| | 2023 | 2022 |
|---|---|---|
| Rent | $ 1,005,480 | $ 1,015,200 |
| Software | 47,656 | 59,971 |
| Other | 15,116 | - |
| Exhibits | - | 293,535 |
| Furniture | - | 64,180 |
| Total | $ 1,068,252 | $ 1,432,886 |

Expenses related to contributions of nonfinancial assets in fiscal 2023 on the Statement of Functional Expenses are recognized as donated rent of $1,404,000 (shown net of the $398,520 amortization of the beneficial interest in use of facilities in Note 7), $47,656 of donated software and $15,116 of other items (donated rent of $1,404,000 net of $388,800, $124,151 of donated software and furniture, and $293,535 of donated exhibits in fiscal 2022).

2. Significant Accounting Policies (continued)

*Contributed Nonfinancial Assets:* (continued)

All donated services and assets were utilized by The Tech's programs and supporting services. There were no donor-imposed restricted associated with the donated services and assets. Donated goods are valued at the prices that would be paid for purchasing similar products.

The Tech also receives a significant amount of contributed time related to program services and fundraising, which does not meet the recognition criteria described above. Accordingly, the value of this important contributed time has not been determined and is not reflected in the financial statements.

*Investments and Fair Value Measurement:*

The Tech accounts for investments under Topic 820, *Fair Value Measurement*. The Tech uses a three-level hierarchy under Topic 820 for fair value measurement based on the nature of inputs used in the valuation of an asset or liability at the measurement date. The three-level hierarchy prioritizes within the measurement of fair value, the use of market-based information over entity-specific information. Fair value focuses on an exit price and is defined 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 financial assets and liabilities are not necessarily an indication of the risk associated with those assets and liabilities.

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

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

**Level II:** Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

**Level III:** Inputs to the valuation methodology significant to the fair value measurement, are unobservable.

2. Significant Accounting Policies (continued)

*Investments and Fair Value Measurement:* (continued)

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Certificates of deposits with original maturities of greater than three months are reported at fair value based on cost and accumulated interest, which approximates fair value. Money market funds are recorded at fair value based on quoted market prices in active markets. These investments are classified under Level I of the three-level hierarchy. The Tech's fixed income investments are valued based on quoted market prices of similar assets are classified under Level II of the three-level hierarchy. The Tech's non-marketable investments in venture capital funds are classified under Level III of the three-level hierarchy. The Tech's pledges receivable not due within one year are recorded at fair value, estimated by discounting future cash flows to present value using a discount rate at the date of the financial statements, and are classified under Level II of the three-level hierarchy. At June 30, 2023 and 2022, The Tech applied a discount rate of 2.25% to long-term pledges receivable.

Under Topic 820, The Tech's investments in equity funds and fixed income funds valued at fair value using the net asset value (NAV) per share of the entity's underlying assets as a practical expedient and are not categorized within the Topic 820 fair value hierarchy under GAAP. The value of these non-marketable investments presented in the financial statements are not necessarily indicative of amounts The Tech could realize upon liquidation of the funds and the difference between the recorded value and the amount realized could be material to the financial statements.

<u>Level III Valuation Techniques:</u>

The fair value of investments in venture capital funds is based on The Tech's percentage interest owned in each fund. The fund managers and general partner use various valuation approaches, including market and income approaches, to determine fair value of the venture capital funds. Inputs that are used in determining fair value of an investment may include price information, credit data, volatility statistics and other factors. In addition, inputs can be either observable or unobservable.

The fair value of venture capital funds is initially based upon the transaction price. The fund managers and general partner rely on inputs such as multiple market price quotations from market makers (either market or indicative levels), recent transactions in the same or similar instruments, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt markets, and changes in the financial ratios or cash flows to determine ongoing fair value. The investments are adjusted to reflect illiquidity and/or non-transferability, with the amount of the discount estimated by the funds in the absence of market information. Due to the lack of observable inputs, assumptions used by the fund managers and general partner may significantly impact the resulting fair value.

2. Significant Accounting Policies (continued)

*Investments and Fair Value Measurement:* (continued)

While the fund managers and general partner believe the valuation methods used for the venture capital funds 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 investments could result in a different estimate of fair value at each reporting date. Estimated fair values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

<u>NAV Practical Expedient Valuation Techniques</u>

The NAVs of the underlying investments in the equity and fixed income funds are based on valuations provided by the fund managers. The Tech reviews and evaluates the values provided by the fund managers and agrees with the valuation methods and assumptions used in determining the fair value of these debt and private equity investments. The value of these investments presented in the financial statements are not necessarily indicative of amounts The Tech could realize upon liquidation of the investments. Because of the inherent uncertainty of valuations, the estimated fair value may differ from the value that would have been used had a ready market for the investments existed, and the difference between the recorded value and the amount realized could be material to the financial statements.

*Cash and Cash Equivalents:*

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

*Concentrations of Credit Risk:*

Financial instruments which potentially subject The Tech to concentration of credit risk consist primarily of cash and cash equivalents, investments, pledges receivable, and grants and other receivables. The Tech's cash and cash equivalent deposits held at one commercial bank and its money market funds held at a major financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. The Tech's investments in certificates of deposit, fixed income funds and equity funds are held at several major financial institutions are insured by the Securities Investor Protection Corporation (SIPC) up to $500,000, of which $250,000 is for cash and cash equivalent deposits, per institution. Each of the Tech's individual certificates of deposit is held with a separate financial institution, at a value below the FDIC or SIPC insured amount. Investments in venture capital funds are not insured. The Tech's investments are managed by The Tech's Board of Directors (the Board).

2. Significant Accounting Policies (continued)

*Concentrations of Credit Risk:* (continued)

Receivables are generally from local donors, grantors and other sources and these balances are evaluated for collectability by The Tech on a regular basis. Management makes judgments as to the ability to collect the outstanding receivables and provides allowances for potential credit losses as needed. Credit losses have historically been within management's expectations.

*Property, Exhibits and Equipment:*

The Tech capitalizes property, exhibits and equipment acquisitions over $3,000. Purchased or constructed property, exhibits and equipment are recorded at cost. Donated property, exhibits and equipment are recorded at their estimated fair value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to 20 years. Construction in progress is not depreciated until placed into service. Leasehold improvements are amortized over the shorter of the asset's estimated useful life or the remaining lease term.

Gifts of property, exhibits and equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

*Leases:*

In 2021, under FASB ASC Topic 840, *Leases* (Topic 840), rent expense on the Tech's operating facility leases (Note 9), which contained scheduled rent increases, was calculated on a straight-line basis. The difference, recorded as deferred rent, was not material and not recorded on the Statement of Financial Position through June 30, 2022.

Effective July 1, 2022 (the Adoption Date), the Tech adopted FASB ASC Topic 842, *Leases* (Topic 842), which requires all entities that lease assets with terms of greater than twelve months to capitalize the assets and related liabilities on the balance sheet, which had not previously required capitalization. The Tech adopted Topic 842 using the modified retrospective approach for its leases at the Adoption Date. Leases are classified as either an operating or finance lease under Topic 842, with classification affecting the pattern of expense recognition in operations.

2. Significant Accounting Policies (continued)

*Leases:* (continued)

The Tech used practical expedients under Topic 842 that allowed it to not reassess existing leases or lease classifications and to use hindsight in determining the lease terms. The Tech has also elected an accounting policy to not capitalize assets with a lease term of twelve months or less if the lease does not provide an option to purchase the assets at the end of the lease term or an option to extend the lease longer than twelve months that management was not reasonably certain to exercise at the Adoption Date or subsequent lease commencement date. As a result of the practical expedients, there was no adjustment to net assets required at the Adoption Date.

The Tech elected an accounting policy election to not capitalize leases with terms of twelve months or less and do not include an option to purchase the leased assets on the Statement of Financial Position. Information related to leases at and for the year ended June 30, 2023 are presented under Topic 842, while prior period amounts have not adjusted and continue to be reported under the accounting guidance in Topic 840.

The adoption of Topic 842 resulted in the recording of operating lease liabilities and operating lease right of use assets (ROU assets) of $2,012,839 for its operating leases at the Adoption Date.

A ROU asset represents the right to use a specified asset for the stated lease term, and a lease liability represents the legal obligation to make lease payments. A ROU asset and liability are recognized at the Adoption Date or subsequent lease commencement date based on the present value of lease payments over the expected lease term. The Tech uses the implicit interest rate in a lease when it is readily determinable. Since most operating leases do not provide the lessor's implicit interest rate to determine the present value of lease payments, management has elected an accounting policy election to use the risk-free discount rate for a period comparable to the lease term in the application of Topic 842 based on the information available at the Adoption Date or subsequent lease commencement date. A ROU asset also includes any lease payments previously made and excludes any landlord lease incentives offered in the lease.

*Accounting for Impairment of Long-Lived Assets:*

Long-lived assets consist of property, exhibits and equipment and the ROU assets. The Tech reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. When it is determined the carrying value of long-lived assets may not be recoverable, The Tech measures any impairment based on projected discounted cash flows using a discount rate commensurate with the risk inherent in its current operating model. The Tech has not recorded any impairment of its long-lived assets through June 30, 2023.

2. Significant Accounting Policies (continued)

*Return on Investment:*

Investment income represents interest and dividends earned and investment gains, net of external and direct internal investment related fees. Investment income is recorded on the accrual method of accounting and dividends are recorded at the ex-dividend date. Realized gains and losses on investments represent the difference between the original cost of the investments and the price on the date of sale or disposal. The difference between the original cost and the estimated current fair value of investments owned at the end of the period represents cumulative unrealized gain or loss.

Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the Statement of Activities in the period as the fluctuations occur as investment income or loss.

*Functional Expenses:*

The costs of providing The Tech's various programs and support services have been summarized on a functional basis in the Statements of Functional Expenses. Directly identifiable expenses are charged to the related program or service benefited. Indirect expenses are generally allocated based on operating expenses incurred and estimates of time and effort. Indirect expenses, such as occupancy and insurance, are allocated based on employee headcount. Donated rent is allocated based on the square footage used by each program or service benefitted.

*Advertising Costs:*

Costs associated with advertising are expensed when incurred. Advertising costs were $771,000 in fiscal 2023 ($451,000 in fiscal 2022).

*Income Taxes:*

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

Although an organization is recognized as tax exempt, it is still liable for tax on its unrelated business taxable income (UBTI). The Tech believes it does not have UBTI that would result in an income tax liability at June 30, 2023 and 2022.

2. Significant Accounting Policies (continued)

*Income Taxes:* (continued)

The Tech applies the provisions set forth in FASB ASC Topic 740, *Income Taxes*, to account for the uncertainty in income taxes. The Tech has assessed all income tax positions taken where the statute of limitations remains open. The Tech believes its tax filing positions will be sustained upon tax examination; therefore, no liability for uncertain income tax positions has been recorded at June 30, 2023 and 2022. The Tech does not anticipate any significant increases or decreases to uncertain income tax positions during the next twelve months.

The Tech's federal exempt organization business income tax return (Form 990) is subject to examination, generally for three years after it is filed with the Internal Revenue Service. The Tech's California exempt organization business income tax return is subject to examination, generally for four years after it is filed with the Franchise Tax Board.

*Recent Accounting Pronouncements Not Yet Effective:*

<u>Credit Losses</u>

In June 2016, the FASB issued ASC Topic 326, *Credit Losses*. The standard requires all entities to evaluate, on an ongoing basis, future expected credit losses for financial instruments recorded at amortized cost, including accounts and grants receivable. The standard introduces the "expected credit loss methodology" and creates the current expected loss model, which replaces the "incurred credit loss" model for the measurement of credit losses. Topic 326 will be effective for The Tech on July 1, 2023 and requires the use of a modified retrospective transition approach for its adoption. The Tech is currently evaluating the effect Topic 326 will have on its financial statements and related disclosures.

*Reclassifications:*

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

3. Liquidity and Availability of Resources

The table below represents assets available for general expenditures within one year at June 30, 2023:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 4,048,592 |
| Grants and other receivables | | 230,137 |
| Pledges receivable, net | | 2,104,137 |
| Investments | | 32,165,024 |
| Total financial assets | | 38,547,890 |
| Less amounts not available to be used within one year: | | |
| Funds received from donors restricted for programs (Note 11) | | 6,218,487 |
| Receivables due in one to five years, net of discount (Note 4) | | 1,071,490 |
| Receivables due in less than one year restricted for purpose, (Note 11) | | 1,244,619 |
| Undesignated endowment income (Note 11) | | 7,026,680 |
| Investments in donor restricted endowments held in perpetuity (Note 11) | | 16,715,706 |
| Financial assets not available to be used within one year | | 32,276,982 |
| Financial assets available to meet general expenditures within one year | $ | 6,270,998 |

The table below represents assets available for general expenditures within one year at June 30, 2022:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 3,247,626 |
| Grants and other receivables | | 284,741 |
| Pledges receivable, net | | 2,602,493 |
| Investments | | 34,756,177 |
| Total financial assets | | 40,891,037 |
| Less amounts not available to be used within one year: | | |
| Funds received from donors restricted for programs (Note 11) | | 8,690,223 |
| Receivables due in one to five years, net of discount (Note 4) | | 1,557,206 |
| Receivables due in less than one year restricted for purpose (Note 11) | | 1,310,000 |
| Undesignated endowment income (Note 11) | | 7,222,644 |
| Investments in donor restricted endowments held in perpetuity (Note 11) | | 16,715,706 |
| Financial assets not available to be used within one year | | 35,495,779 |
| Financial assets available to meet general expenditures within one year | $ | 5,395,258 |

3. Liquidity and Availability of Resources (continued)

The Tech monitors liquidity and the availability of its resources on an ongoing basis to ensure adherence to donor restrictions, contractual commitments and legal requirements for the use of funds while also maximizing the return on investments.

The Tech considers funds with donor restrictions of time periods greater than one year and to purpose to be unavailable for use in general expenditures. Other contractual commitments may require The Tech's assets to be maintained for a period of time before becoming accessible through redemption or withdrawal. The assets bound by contractual commitments are not available for general expenditures within one year.

The Tech has donor-restricted assets held within an endowment fund (Note 13) that are also restricted to use based on state and federal law. Up to 5% of the endowment assets average fair value over a three-year moving period may be appropriated and used for general expenditures within twelve months. The Board will appropriate such resources when and if considered necessary.

4. Pledges Receivable

Pledges receivable are summarized as follows at June 30:

| | 2023 | 2022 |
|---|---|---|
| The Tech 3.0 Campaign | $ 808,000 | $ 1,007,647 |
| The Tech 4.0 Campaign | 250,000 | - |
| Sustainable Cities Lab | 1,000,000 | 1,500,000 |
| Other | 46,137 | 94,846 |
| Net pledges receivable | $ 2,104,137 | $ 2,602,493 |
| | | |
| Receivable in less than one year | $ 1,032,647 | $ 1,045,287 |
| Receivable in one to five years | 1,100,000 | 1,607,647 |
| | 5,132,647 | 2,652,934 |
| Less: unamortized discount to present value | (28,510) | (50,441) |
| Net pledges receivable | $ 2,104,137 | $ 2,602,493 |

4. Pledges Receivable (continued)

The amounts raised will be used to fund various programs and functions of The Tech, including construction and ongoing staffing and maintenance of new exhibits. Through June 30, 2023, The Tech has raised $57,693,000 from The Tech 3.0 Campaign, of which $56,885,000 had been received and raised $375,000 for the Tech 4.0 Campaign, of which $125,000 had been received.

On June 27, 2023, the State of California approved its fiscal 2023-2024 budget, which included $3,000,000 for The Tech to support local field trips. The Tech has not received a grant agreement from the State of California and has determined, since the State of California may still modify its budget, revenue recognition should be deferred until a grant agreement or cash is received. The Tech expects the full $3,000,000 to be received in fiscal 2024.

5. Investments

The following table presents the financial instruments carried at fair value at June 30, 2023:

| | Level I | Level II | Level III | NAV | Total |
|---|---|---|---|---|---|
| Certificates of deposit | $ 7,704,490 | $ - | $ - | $ - | $ 7,704,490 |
| Money market funds | 6,483,380 | - | - | - | 6,483,380 |
| Fixed income funds | - | 120,613 | - | 118,854 | 239,467 |
| Venture capital funds | - | - | 5,815,524 | - | 5,815,524 |
| Equity funds | - | - | - | 11,922,163 | 11,922,163 |
| Total | $ 14,187,870 | $ 120,613 | $ 5,815,524 | $ 12,041,017 | $ 32,165,024 |

The following table presents the financial instruments carried at fair value at June 30, 2022:

| | Level I | Level II | Level III | NAV | Total |
|---|---|---|---|---|---|
| Certificates of deposit | $ 5,183,831 | $ - | $ - | $ - | $ 5,183,831 |
| Money market funds | 5,895,370 | - | - | - | 5,895,370 |
| Fixed income funds | - | 3,473,446 | - | 1,908,021 | 5,381,467 |
| Venture capital funds | - | - | 7,022,009 | - | 7,022,009 |
| Equity funds | - | - | - | 11,273,500 | 11,273,500 |
| Total | $ 11,079,201 | $ 3,473,446 | $ 7,022,009 | $ 13,181,521 | $ 34,756,177 |

There were purchased investments of $58,000 classified by The Tech within Level III of the fair value hierarchy in fiscal 2023 ($294,000 in fiscal 2022). There were no transfers between the levels of the fair value hierarchy in fiscal 2023 or 2022.

5. Investments (continued)

*Level III Investments:*

The following table summarizes the quantitative inputs and assumptions used, and the remaining capital commitments and termination dates for investments categorized as Level III under the fair value hierarchy:

| | Fair Value at June 30, 2023 | Fair Value at June 30, 2022 | Remaining Commitment at June 30, 2023 | Term Date** |
|---|---|---|---|---|
| Legacy Venture V, LLC | $ 338,314 | $ 414,011 | $ - | December 31, 2022* |
| Legacy Venture VII, LLC | 2,917,514 | 3,682,191 | - | December 31, 2026 |
| Legacy Venture VIII, LLC | 1,468,460 | 1,685,782 | - | December 31, 2028 |
| Legacy Venture IX, LLC | 1,067,457 | 1,204,544 | 90,000 | December 31, 2030 |
| University Technology Ventures, L.P. | 23,779 | 35,481 | 31,328 | December 31, 2019* |
| Total | $ 5,815,524 | $ 7,022,009 | $ 121,328 | |

* The investment fund is in liquidation at June 30, 2023.
** The investment fund continues in existence until the term end date, or until the earlier termination or extension of the entity in accordance with provisions of the limited partnership agreement or operating agreement. Redemption not permitted during the life of the entity without prior written consent of the general partner or managing member or upon an affirmative vote by members, within the terms of the limited partnership agreement or operating agreement.

The investments categorized as Level III under the fair value hierarchy are valued using a market approach technique. Unobservable inputs to the valuation include an illiquidity discount.

*Investments Valued Using NAV:*

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

| | Fair Value at June 30, 2023 | Fair Value at June 30, 2022 | Redemption Frequency | Redemption Notice |
|---|---|---|---|---|
| Equity funds | $ 11,922,163 | $ 11,273,500 | Daily - Annually | 1 - 90 days |
| Fixed income funds | 118,854 | 1,908,021 | Daily - Monthly | 1 - 5 days |
| Total | $ 12,041,017 | $ 13,181,521 | | |

5. Investments (continued)

The equity funds include investments in actively managed funds that invest in stocks or other securities issued by companies in domestic and foreign markets. The fixed income funds include investments in actively managed funds that invest in government, corporate or sovereign bonds. Investments are held in a commingled trust.

6. Property, Exhibits and Equipment

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

| | 2023 | 2022 |
|---|---|---|
| Exhibits | $ 18,182,734 | $ 18,182,734 |
| Building and leasehold improvements | 13,290,405 | 13,046,633 |
| Equipment | 8,075,536 | 8,000,103 |
| Computer software | 11,000 | 11,000 |
| Construction in progress | 355,156 | 33,950 |
| | 39,914,831 | 39,274,420 |
| Accumulated depreciation and amortization | (34,028,111) | (32,900,180) |
| Property, exhibits and equipment, net | $ 5,886,720 | $ 6,374,240 |

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

7. Beneficial Interest in Use of Facilities

In fiscal 2020, The Tech entered into a 55-year agreement with the City of San Jose to lease its primary facility and an adjacent exhibition hall for $1 per year. The Tech has recorded an asset to reflect a beneficial interest in the use of the facilities, representing the estimated fair value of the lease at its inception. The asset is being amortized over the lease term to donated rent.

The beneficial interest in the use of facility is as follows at June 30:

| | 2023 | 2022 |
|---|---|---|
| Total benefit in interest in use of facilities | $ 71,604,000 | $ 73,008,000 |
| Less discount to net present value at (2.5%) | (30,379,315) | (31,384,795) |
| Net beneficial interest in use of facilities | $ 41,224,685 | $ 41,623,205 |

7. Beneficial Interest in Use of Facilities (continued)

The following amounts have been recognized in the financial statements in connection with the beneficial interest in use of facilities for fiscal:

| | 2023 | 2022 |
|---|---|---|
| Rent expense | $ 1,404,000 | $ 1,404,000 |
| Amortization of discount | (1,005,480) | (1,015,200) |
| Net decrease in temporarily restricted net assets | $ 398,520 | $ 388,800 |

8. Borrowings

*Line of Credit:*

In January 2023, The Tech extended a $2,000,000 line of credit with a bank with a maturity date of January 2024. Borrowings under the agreement bear interest at the bank's prime rate plus 1% per annum and are unsecured. No principal was drawn and no interest was paid in fiscal 2023.

*Government Funded Loan:*

In March 2021, The Tech entered into an unsecured promissory loan for $1,933,780 under the Paycheck Protection Program (the PPP) administered by the U.S. Small Business Administration (the SBA). The PPP was established under the Coronavirus Aid, Relief and Economic Security Act (the CARES Act). The loan bore interest at a fixed rate of one percent (1%) per annum. In January 2022, The Tech received forgiveness by the SBA for the full loan and accrued interest, which was reported as a gain on forgiveness on the Statement of Activities.

In connection with the forgiveness of the loan, the SBA reserves the right to challenge its decisions reached, and the resolution of the matter could result in The Tech being required to repay all or a portion of the amount forgiven, along with possible interest and penalties. In the opinion of the Board, The Tech used reasonable judgment in requesting the loan to be forgiven and its determination the requirements for forgiveness were met will be sustained upon further SBA examination.

9. Lease Arrangements

*Operating Lease:*

The Tech leases an exhibit (Body Worlds Decoded) under a non-cancelable operating lease agreement, which expires in June 2027. The Tech also leases a facility in San Jose, California under a non-cancelable operating lease agreement expiring in December 2023.

The San Jose lease agreement contains scheduled rent increases. The leases are classified as operating leases under Topic 842 where the operating lease ROU assets are amortized over the remaining operating lease term, which was 1.5 years for the San Jose lease and four years for Body Worlds Decoded lease. Interest expense on the operating lease liabilities is recorded using the interest method with a weighted average risk-free discount rate of 2.8%. The lease liabilities are collateralized by the leased assets.

Lease expense under the operating leases, including interest on the operating lease liabilities, was $467,000 for the year ended June 30, 2023. Rent expense for the year ended June 30, 2022 under Topic 840 was $456,000.

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

| | |
|---|---|
| Years ending June 30: | |
| 2024 | $ 468,300 |
| 2025 | 432,300 |
| 2026 | 394,500 |
| 2027 | 394,500 |
| Total minimum lease payments | 1,689,600 |
| Less amount representing interest | (90,002) |
| Present value of operating lease liabilities | 1,599,598 |
| Less current portion | (428,632) |
| Noncurrent portion | $ 1,170,966 |

10. Commitments and Contingencies

In fiscal 2018, The Tech purchased a laser dome theater system for $1,600,000 for the development and operation of a state of the art IMAX theater, which was recorded as equipment at June 30, 2023 and 2022. The purchase agreement allows The Tech to operate the theater under a ten-year license agreement with IMAX and provides The Tech an option to renew the license for an additional five years. The option is contingent on the payment of the amount IMAX estimates it would incur to refurbish and upgrade the theater system to the then current IMAX technology. The agreement also includes an annual maintenance fee of $55,000 per year. The Tech is also subject to additional payments based on 5% of annual gross IMAX revenue over $1,000,000. The Tech did not incur any additional rent in fiscal 2023 or 2022.

*Coronavirus Global Outbreak:*

The global outbreak of the novel coronavirus continues to be an evolving situation. The virus has disrupted much of society, impacted global travel and supply chains, adversely impacted global and domestic commercial activity in most industries. The development and fluidity of this situation precludes any prediction as to its ultimate impact, which may continue to have an adverse effect on the economic and market conditions and an extended period of global economic uncertainty. The uncertainties arising from the virus may present business risks with respect to The Tech and its future financial results.

11. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted by donors by time or for the purposes described below. Net assets with donor restrictions consist of the following at June 30:

| | 2023 | 2022 |
|---|---|---|
| Beneficial interest in use of facilities | $ 41,224,685 | $ 41,623,205 |
| Tech 3.0 | 5,334,549 | 7,340,791 |
| Tech 4.0 | 125,000 | - |
| Tech Challenge | 59,269 | 112,701 |
| Title One | 300,000 | 756,354 |
| Tech for Global Good | 242,464 | 300,000 |
| Education Programs | 157,205 | 180,377 |
| Receivables | 2,316,109 | 2,867,206 |
| Undesignated endowment income | 7,026,680 | 7,222,644 |
| Investments held in perpetuity | 16,715,706 | 16,715,706 |
| | $ 73,501,667 | $ 77,118,984 |

12. Net Assets Released from Restrictions

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

| | 2023 | 2022 |
|---|---|---|
| Operations | $ 10,337,041 | $ 5,994,489 |
| Designated endowment income | 1,308,891 | 1,656,475 |
| Beneficial interest in use of facility | 398,520 | 388,800 |
| | $ 12,044,452 | $ 8,037,764 |

13. Endowment

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

The Tech has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original donor gift restricted in perpetuity, absent explicit donor stipulations to the contrary. As a result of this interpretation, The Tech classifies net assets restricted in perpetuity as: (a) the original value of gifts donated to the endowment; (b) the original value of subsequent gifts to the endowment; and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment. The remaining portion of the donor-restricted endowment that is not restricted in perpetuity is classified as net assets with donor restrictions (Note 11) until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by SPMIFA. Once appropriated, these amounts are classified as net assets without donor restrictions.

13. Endowment (continued)

In accordance with SPMIFA, The Tech considers the following factors in appropriating or accumulating donor-restricted endowment assets:

(1) The duration and preservation of the fund;
(2) The purposes of The Tech and the donor-restricted endowment fund;
(3) General economic conditions;
(4) The possible effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of The Tech;
(7) The Tech's investment policies.

Endowment assets consist of the following at June 30, 2023:

| | |
|---|---|
| Endowment Funds Restricted in Perpetuity | $ 16,715,706 |
| Undesignated Endowment Income | 7,026,680 |
| | $ 23,742,386 |

Endowment assets consist of the following at June 30, 2022:

| | |
|---|---|
| Endowment Funds Restricted in Perpetuity | $ 16,715,706 |
| Undesignated Endowment Income | 7,222,644 |
| | $ 23,938,350 |

Changes in endowment assets for fiscal 2023 are as follows:

| | |
|---|---|
| Endowment Assets, beginning of year | $ 23,938,350 |
| Net appreciation | 1,112,927 |
| Appropriated for expenditure | (1,308,891) |
| Endowment Assets, end of year | $ 23,742,386 |

Changes in endowment assets for fiscal 2022 are as follows:

| | |
|---|---|
| Endowment Assets, beginning of year | $ 27,300,679 |
| Net appreciation | (1,705,854) |
| Appropriated for expenditure | (1,656,475) |
| Endowment Assets, end of year | $ 23,938,350 |

13. Endowment (continued)

The Tech has adopted an investment policy for endowment assets with the primary objectives to preserve the real purchasing power of the principal and provide a stable source of perpetual financial support. Under this policy, the investments are diversified to help minimize the overall risk of the portfolio. On an annualized, net-of-fee basis, the total return of the portfolio will be expected to equal or exceed the spending rate (targeted at a minimum of 5% per annum) plus inflation based on the consumer price index over a rolling five-year period. Additionally, the returns should show favorable, relative performance characteristics.

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

14. Related Parties

The Tech's Board is active in oversight of fundraising events, activities and in making private contributions. Contributions received from the Board or from companies with which Board members are affiliated with were $1,973,000 in fiscal 2023 ($2,047,000 in fiscal 2022). There are no amounts due from the Board and affiliates at June 30, 2023 ($25,000 at June 30, 2022).

15. Employee Benefit Plan

The Tech has a defined contribution retirement plan covering substantially all employees. The purpose of the plan is to provide retirement benefits for participating employees on a tax-deferred basis. The Tech did not make contributions to the plan in fiscal 2023 or 2022.

16. Subsequent Events

Subsequent events have been evaluated through November 2, 2023, which is the date the financial statements were approved by The Tech and available to be issued.