# The Tech Museum

## Financial Statements
## June 30, 2010 and 2009

**Together with**
**Independent Auditors' Report**

# THE TECH MUSEUM

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**June 30, 2010**

Robert Lee & Associates, LLP

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Tech Museum
San Jose, California

We have audited the accompanying statement of financial position of The Tech Museum (the "Organization"), a California public benefit corporation, as of June 30, 2010 and the related statement of activities and changes in net assets 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 financial statements were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated November 17, 2009.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of the Organization at June 30, 2010, and the results of its activities and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Robert Lee & Associates, LLP

San Jose, California
November 22, 2010

## THE TECH MUSEUM

**Statement of Financial Position**

| | June 30, 2010 | | | | June 30, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **ASSETS:** | | | | | | | | |
| Cash and cash equivalents | $ 798,186 | $ 44,604 | $ 143,723 | $ 986,513 | $ 166,811 | $ 504,511 | $ 510,299 | $ 1,181,621 |
| Investments | 10,022 | 3,771,871 | 10,821,589 | 14,603,482 | 12,067 | 3,093,565 | 9,202,437 | 12,308,069 |
| Other receivable | 626,007 | 1,053,333 | - | 1,679,340 | 1,465,275 | - | - | 1,465,275 |
| Prepaid expenses and other assets | 278,453 | - | - | 278,453 | 469,315 | - | - | 469,315 |
| Pledges receivable, net | - | 1,199,835 | 10,074 | 1,209,909 | 282,520 | - | 9,533 | 292,053 |
| Receivable between asset categories | (1,710,320) | - | 1,710,320 | - | (2,952,898) | - | 2,952,898 | - |
| Receivable for contributed use of facility, net | - | 21,543,927 | - | 21,543,927 | - | 21,648,988 | - | 21,648,988 |
| Property and equipment, net | 5,502,896 | - | - | 5,502,896 | 5,987,581 | - | - | 5,987,581 |
| Total assets | $ 5,505,244 | $ 27,613,570 | $ 12,685,706 | $ 45,804,520 | $ 5,430,671 | $ 25,247,064 | $ 12,675,167 | $ 43,352,902 |
| **LIABILITIES AND NET ASSETS:** | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable and accrued expenses | $ 1,113,821 | $ - | $ - | $ 1,113,821 | $ 763,092 | $ - | $ - | $ 763,092 |
| Deferred revenue | 473,403 | - | - | 473,403 | 294,820 | - | - | 294,820 |
| Capital lease obligation | 40,500 | - | - | 40,500 | - | - | - | - |
| Total liabilities | 1,627,724 | - | - | 1,627,724 | 1,057,912 | - | - | 1,057,912 |
| Net assets: | | | | | | | | |
| Unrestricted | 3,877,520 | - | - | 3,877,520 | 4,372,759 | - | - | 4,372,759 |
| Temporarily restricted | - | 27,613,570 | - | 27,613,570 | - | 25,247,064 | - | 25,247,064 |
| Permanently restricted | - | - | 12,685,706 | 12,685,706 | - | - | 12,675,167 | 12,675,167 |
| Total net assets | 3,877,520 | 27,613,570 | 12,685,706 | 44,176,796 | 4,372,759 | 25,247,064 | 12,675,167 | 42,294,990 |
| Total liabilities and net assets | $ 5,505,244 | $ 27,613,570 | $ 12,685,706 | $ 45,804,520 | $ 5,430,671 | $ 25,247,064 | $ 12,675,167 | $ 43,352,902 |

The accompanying notes are an integral part of these financials

# THE TECH MUSEUM

**Statement of Activities and Changes in Net Assets**

| | For the Year Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | 2009 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **SUPPORT AND REVENUE:** | | | | | | | | |
| Public support | $ 1,300,000 | $ - | $ - | $ 1,300,000 | $ 1,300,000 | $ - | $ - | $ 1,300,000 |
| Contributed support and special events, net of allowance and net present value adjustment | 2,633,802 | 5,410,908 | 10,539 | 8,055,249 | 7,611,049 | 1,838,390 | (2,326) | 9,447,113 |
| Donated property, services and rent | - | 1,572,367 | - | 1,572,367 | - | 1,837,980 | - | 1,837,980 |
| Admissions and fees | 3,527,534 | - | - | 3,527,534 | 4,762,922 | - | - | 4,762,922 |
| Store revenue | 351,228 | - | - | 351,228 | 390,483 | - | - | 390,483 |
| Dividend and interest income | 318,803 | - | - | 318,803 | 381,718 | - | - | 381,718 |
| Realized/unrealized gain (loss) | 1,037,980 | - | - | 1,037,980 | (3,183,078) | - | - | (3,183,078) |
| Net assets released from restriction | 4,616,769 | (4,616,769) | - | - | 4,605,342 | (4,605,342) | - | - |
| Total support and revenue | $ 13,786,116 | $ 2,366,506 | $ 10,539 | $ 16,163,161 | $ 15,868,436 | $ (928,972) | $ (2,326) | $ 14,937,138 |
| **EXPENSES:** | | | | | | | | |
| Program services: | | | | | | | | |
| Exhibits, programs and experiences | $ 6,831,439 | $ - | $ - | $ 6,831,439 | $ 10,032,474 | $ - | $ - | $ 10,032,474 |
| Visitor services | 2,547,376 | - | - | 2,547,376 | 3,724,974 | - | - | 3,724,974 |
| Education | 430,724 | - | - | 430,724 | 340,301 | - | - | 340,301 |
| Supporting services: | | | | | | | | |
| Fundraising and special events | 2,032,659 | - | - | 2,032,659 | 2,648,680 | - | - | 2,648,680 |
| Membership | 141,148 | - | - | 141,148 | 251,178 | - | - | 251,178 |
| Management and general: | | | | | | | | |
| Marketing and public relations | 983,537 | - | - | 983,537 | 1,384,057 | - | - | 1,384,057 |
| Administration | 1,314,472 | - | - | 1,314,472 | 1,388,638 | - | - | 1,388,638 |
| Total expenses | 14,281,355 | - | - | 14,281,355 | 19,770,302 | - | - | 19,770,302 |
| Change in net assets | (495,239) | 2,366,506 | 10,539 | 1,881,806 | (3,901,866) | (928,972) | (2,326) | (4,833,164) |
| Net assets at beginning of period | 4,372,759 | 25,247,064 | 12,675,167 | 42,294,990 | 8,274,625 | 26,176,036 | 12,677,493 | 47,128,154 |
| Net assets at end of period | $ 3,877,520 | $ 27,613,570 | $ 12,685,706 | $ 44,176,796 | $ 4,372,759 | $ 25,247,064 | $ 12,675,167 | $ 42,294,990 |

The accompanying notes are an integral part of these financials

# THE TECH MUSEUM

**Statement of Cash Flows**

Decrease in Cash and Cash Equivalents

| | For the Year Ended June 30, 2010 | For the Year Ended June 30, 2009 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 1,881,806 | $ (4,833,164) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 1,090,373 | 2,221,479 |
| Provision for estimated uncollectible contributed support | 3,380 | 3,380 |
| Present value adjustment, net | 9,513 | 9,513 |
| Contributions restricted for investment in endowment | (10,539) | 2,326 |
| Realized and unrealized (gain) loss on investments | (1,037,980) | 3,183,078 |
| Changes in operating assets and liabilities: | | |
| Other receivable | (214,065) | 601,799 |
| Prepaid expenses and other assets | 190,862 | 137,691 |
| Pledges receivable, net | (930,749) | 4,258 |
| Receivable for contributed use of facility, net | 105,061 | 99,114 |
| Accounts payable and accrued expenses | 350,729 | (209,274) |
| Deferred revenue | 178,583 | (55,302) |
| Net cash provided by operating activities | 1,616,974 | 1,164,898 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (557,558) | (709,236) |
| Purchases of investments | (3,371,433) | (13,237,219) |
| Proceeds from sales of investments, net | 2,114,000 | 12,172,779 |
| Net cash used in investing activities | (1,814,991) | (1,773,676) |
| Cash flows from financing activities: | | |
| Net (release) contributions for investment in endowment | 10,539 | (2,326) |
| Payment on line of credit | - | (1,600,000) |
| Proceeds from line of credit | - | 1,600,000 |
| Payments on capital lease obligation | (7,630) | - |
| Net cash provided (used) by financing activities | 2,909 | (2,326) |
| Net decrease in cash and cash equivalents | (195,108) | (611,104) |
| Cash and cash equivalents, beginning of period | 1,181,621 | 1,792,725 |
| Cash and cash equivalents, end of period | $ 986,513 | $ 1,181,621 |

Supplemental disclosures of cash flow information

| | | |
|---|---|---|
| Cash paid for interest | $ - | $ 6,546 |

Supplemental disclosure of non-cash investing activities

| | | |
|---|---|---|
| Acquisition of equipment for capital lease obligation | $ 48,130 | $ - |
| Transfers from CIP to property and equipment | $ 853,089 | $ - |

The accompanying notes are an integral part of these financials

**Note 1 - Organization and operations:**

The Tech Museum ("Organization"), formally doing business as "The Tech Museum of Innovation", was incorporated on January 11, 1983 as 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 Tech Museum does this through content and programs featuring the "Spirit of Silicon Valley" that endeavor to inspire people and reflect the inventions and mind-set that continue to make this region a leading source of science and technology innovation.

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

**Note 2 - Summary of significant accounting policies:**

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

Basis of presentation - In accordance with Generally Accepted Accounting Principles, (“GAAP”), The Tech presents information regarding its financial position and activities according to three classes of net assets:

- *Unrestricted net assets* are available to support all activities of The Tech without restrictions and include those net assets whose use is not restricted by donors even though their use may be limited in other respects, such as by contract or board designation. Under this category, The Tech maintains a fund designated for property and equipment, equivalent to the net book value of purchased property and equipment, plus significant donated property and equipment, net of depreciation and amortization.

- *Temporarily restricted net assets* represent contributions whose use is limited to donor-imposed stipulations that expire by the passage of time or other restrictions and for which the applicable restriction has not been met as of the end of the current reporting period.

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

Basis of presentation (continued) -

- *Permanently restricted net assets* are restricted by the donor for investment in perpetuity, such as endowments. As determined by The Tech, the income from such invested assets, including realized and unrealized capital gains, is available to support the activities of The Tech at a rate of 5% of the total invested assets in the endowment, applied on a quarterly basis, as long as the market value of the invested assets is the same as or greater than the original investment value.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue recognition - The Tech records contributions and pledges receivable at their fair value in the period the contribution or pledge is received. Contributed support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. The Tech reports gifts of cash and other assets as restricted support if such gifts are received with donor stipulations that limit the use of the donated assets. When such restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. All other contributed support is recognized as revenue when received or unconditionally promised.

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

Conditional promises to give and grants are not included as support until the conditions are substantially met. There were no conditional grants or promises to give for the years ended June 30, 2010 and 2009.

Functional expense allocations **-** The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated based on estimates of time and other factors among the programs and supporting services benefited.

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

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

Investments - All investments are valued in accordance with generally accepted accounting principles ("GAAP").

*Publicly traded* - The Tech invests in marketable securities and money market funds. All securities are carried at quoted market prices as of the last trading date of The Tech's fiscal year. The Tech's Board of Directors has established an investment policy and has engaged the services of an outside investment advisor to assist in such matters. Contributions of investments are recorded at estimated fair value at the date of donation and are sold as soon as reasonably possible. Unrealized gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains and losses resulting from sales or maturities are the differences between the investment's cost basis and the sale or maturity settlement of the investment. Dividend and interest income are accrued when earned.

*Private equity funds* - To the extent that these funds invest in publicly traded investments, they are included at quoted market prices as described above. The remaining investments are carried at estimated fair values as determined by the investment manager of these securities after giving consideration to operating results, financial condition, recent sales prices of issuers' securities and other pertinent information. These investments are valued at The Tech's percentage interest owned in these investment companies. Because of the inherent uncertainty of valuations, however, these 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.

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

Prepaid expenses and other assets - Prepaid expenses and other assets include payments on a 10-year lease commitment for the IMAX theatre, prepaid in 1998 expiring October 2008. This lease was extended in March 2008 expiring October 2011, with remaining balances of approximately $123,887 and $217,000 at June 30, 2010 and 2009, respectively (see Note 14).

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

Pledges receivable - Pledges receivable are either unconditional or conditional. Unconditional promises to give are promises that depend only on the passage of time or the demand by the promisor for performance. A conditional promise to give is a promise that depends on the occurrence of a specified future and uncertain event to bind the promisor.

Contributions that are promised in one year but are expected to be received after the end of that year (or over a number of years) are considered pledges. Pledges are predominantly associated with amounts receivable for The Tech's endowment. Pledges are discounted at a reasonable rate of interest based on the Applicable Federal Rate (4.25% at June 30, 2010). An allowance reserve for uncollectible pledges has been established utilizing a factor of 2%. The financial statements reflect these pledges net of the discount and allowance reserve.

Receivable between asset categories - Receivable between asset categories reflects the amounts owed from unrestricted assets to permanently restricted assets due predominantly to the unrealized market losses associated with The Tech's endowment investments as of June 30, 2010 and 2009.

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

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

Long-lived assets - The Tech reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of any assets may not be recoverable. No such impairments have been identified to date.

Accounts payable and accrued expenses - Accounts payable and accrued expenses represent normal operating liabilities due and payable within the following twelve months.

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

Deferred revenue - Deferred revenue predominantly represents membership dues that are deferred upon receipt and recognized as revenue ratably over the membership period, generally for the one-year period effective as of the month of receipt. Other deferred revenue components represent deposit payments received for facilities rental events that are scheduled to occur in future periods.

Donated property, services and rent **-** Significant donated property and equipment is recorded at estimated fair value at the date of receipt. Contributed services, which require a specialized skill and which The Tech would have paid for if not contributed, have been recorded at their estimated fair market value. In addition, a substantial number of volunteers have donated significant amounts of time in The Tech's program services and fund-raising activities. The value of donated volunteer services has not been recognized in the accompanying financial statements because such volunteer services do not require specialized skills.

Advertising **-** Advertising costs are expensed as incurred. Advertising, promotion and marketing expense for the years ended June 30, 2010 and 2009 were approximately $1,418,000 and $1,036,000, respectively.

Fair value of financial instruments **-** Financial instruments included in the Organization's Statement of Financial Position as of June 30, 2010 and 2009 include cash and cash equivalents, investments, receivables, accounts payable and accrued expenses. For cash and cash equivalents, receivables, accounts payable, and accrued expenses, the carrying amounts represent a reasonable estimate of the corresponding fair values. Investments are reflected in the accompanying Statement of Financial Position at their estimated fair values using methodologies described above.

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

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Notes to Financial Statements
June 30, 2010

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

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

Accounting for uncertainty in income taxes - The Tech evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2010 and 2009 management did not identify any uncertain tax positions.

The Tech is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction is June 30, 2007 and forward. The State of California tax jurisdiction is subject to potential examination for tax years June 30, 2006 and forward.

Subsequent events - Subsequent events are evaluated through the date the financial statements were available to be issued and management has determined that no material subsequent events require an estimate to be recorded as of June 30, 2010 and 2009.

Recent accounting pronouncements - In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, Improving Disclosure about Fair Value Measurements. This amends ASC 820 (formerly Statement of Financial Accounting Standards "SFAS" No. 157) to require additional disclosures. The guidance requires entities to disclose transfer of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective for periods beginning after December 15, 2009. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation; this is effective for the periods beginning after December 31, 2010. The adoption of this guidance is not expected to have a material impact on the Organization's financial statements.

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

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

Reclassification - Certain 2009 balances have been reclassified to conform to the 2010 financial statement presentation. These reclassifications have no effect on the previously reported change in net assets.

## Note 3 - Investments:

The Tech follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB Accounting Standards Codification. These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Tech uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, The Tech measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The estimated fair value of The Tech's investments was as follows at June 30:

| | 2010 | 2009 |
|---|---|---|
| Marketable securities: | | |
| Certificates of deposit | $ 3,771,871 | $ 3,093,565 |
| Money market funds | 10,022 | 12,067 |
| Total marketable securities | 3,781,893 | 3,105,632 |
| Alternative investments: | | |
| Equity funds | 10,312,931 | 8,733,582 |
| Venture capital funds | 508,658 | 468,855 |
| Total alternative investments | 10,821,589 | 9,202,437 |
| Total investments | $ 14,603,482 | $ 12,308,069 |

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Notes to Financial Statements
June 30, 2010

**Note 3 - Investments (continued):**

The following schedule summarizes the investment returns (excluding interest and dividend income) for the years ended June 30:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Marketable securities: | | | | |
| Realized and unrealized gain (loss) | $ | 16,737 | $ | (15,567) |
| Management fees | | (30) | | (391) |
| Net marketable securities returns | | 16,707 | | (15,958) |
| Alternative investments: | | | | |
| Realized and unrealized gain (loss) | | 1,061,973 | | (3,138,004) |
| Management fees | | (40,700) | | (29,116) |
| Net alternative investments returns | | 1,021,273 | | (3,167,120) |
| Net realized and unrealized gain (loss) | $ | 1,037,980 | $ | (3,183,078) |

An investment's classification within a level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of the investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Organization's perceived risk of that investment. The following are major categories of investments measured at fair value on a recurring basis:

- Level 1: Quoted prices in active markets for identical assets
- Level 2: Significant other observable inputs
- Level 3: Significant unobservable inputs

| | Year Ended June 30, 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Level 1 | | Level 2 | | 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 | | - | | - | | 508,658 | | 508,658 |
| Total | $ | 3,781,893 | $ | - | $ | 10,821,589 | $ | 14,603,482 |

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Notes to Financial Statements
June 30, 2010

**Note 3 - Investments (continued):**

| | Year Ended June 30, 2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Certificates of deposit | $ 3,093,565 | $ - | $ - | $ 3,093,565 |
| Money market funds | 12,067 | - | - | 12,067 |
| Equity funds | - | - | 8,733,582 | 8,733,582 |
| Venture capital funds | - | - | 468,855 | 468,855 |
| Total | $ 3,105,632 | $ - | $ 9,202,437 | $ 12,308,069 |

The following is a reconciliation of the beginning and ending balances for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| | Year Ended June 30, 2010 | | |
|---|---|---|---|
| | Equity funds | Venture capital funds | Total |
| Beginning balance | $ 8,733,582 | $ 468,855 | $ 9,202,437 |
| Net realized and unrealized gains | 1,229,349 | 16,321 | 1,245,670 |
| Net purchases, issuances, settlements | 350,000 | 23,482 | 373,482 |
| Transfers in and/or out of Level 3 | - | - | - |
| Ending balance | $ 10,312,931 | $ 508,658 | $ 10,821,589 |

| | Year Ended June 30, 2009 | | |
|---|---|---|---|
| | Equity funds | Venture capital funds | Total |
| Beginning balance | $ 7,914,260 | $ 584,526 | $ 8,498,786 |
| Net realized and unrealized gains (losses) | 883,582 | (140,058) | 743,524 |
| Net purchases, issuances, settlements | (64,260) | 24,387 | (39,873) |
| Transfers in and/or out of Level 3 | - | - | - |
| Ending balance | $ 8,733,582 | $ 468,855 | $ 9,202,437 |

**Note 3 - Investments (continued):**

The Organization uses the Net Asset Value ("NAV") to determine the fair value of all the underlying investments which do not have a readily determinable fair value and prepares their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies by major category:

| | Year Ended June 30, 2010 | | | |
|---|---|---|---|---|
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Equity funds [a] | $ 10,312,931 | $ - | N/A | N/A |
| Venture capital funds [b] | 508,658 | 638,828 | Quarterly and annually | 1 to 3 weeks |
| | $ 10,821,589 | $ 638,828 | | |

[a] This category uses a multi-manager approach, allocating assets to investment Sub-Advisors ("Sub-Advisors") or investment funds managed by Sub-Advisors ("Third Party Investment Funds"). The category allocates assets across a broad spectrum of public equity strategies and fixed income sectors in proportions that the Investment Managers consider optimal for a fully diversified portfolio. The majority of the assets in the category are invested directly or indirectly in a portfolio of common stocks, securities convertible into common stocks, and dollar denominated investment grade bonds and other fixed income securities.

[b] This category consists of a fund of funds where almost the entire amount is invested with large venture capital firms who in turn invest in start-up companies in various stages of maturity. These investments are largely illiquid and do not have a ready market. The liquidity is dependent upon the IPO or sale of the portfolio companies of the venture firms.

**Note 4 - Pledges receivable and contributed use of facility:**

Receivables are recorded after discounting the future cash flows to present value using a discount rate of 4.25% and 3.5% for 2010 and 2009, respectively. The maturities of these receivables are as follows:

| Year Ending June 30, | Temporarily restricted pledges receivables | Temporarily restricted contributed use of facility | Permanently restricted pledges receivables |
|---|---|---|---|
| 2011 | $ 255,000 | $ 1,404,000 | $ 4,000 |
| 2012 | 240,000 | 1,404,000 | 2,000 |
| 2013 | 240,000 | 1,404,000 | 2,000 |
| 2014 | 240,000 | 1,404,000 | 2,000 |
| 2015 | 240,000 | 1,404,000 | 1,000 |
| Thereafter | 95,000 | 54,054,000 | - |
| Subtotal | 1,310,000 | 61,074,000 | 11,000 |
| Less discount for present value | (83,965) | (39,530,073) | (706) |
| Less allowance for estimated uncollectible contributed support | (26,200) | - | (220) |
| Total | $ 1,199,835 | $ 21,543,927 | $ 10,074 |

The Tech has entered into an agreement with the City of San Jose (the "City") for the lease of its primary facility for $1 a year. The receivable for the contributed use of the facility reflects the fair value of the use of the facility for 55 years (through 2053). The Tech recognized contribution revenue and a receivable for the present value of the promise for rent-free use of the facility with the annual maturity of contributed support receivable recognized as rent expense.

## Note 5 - Contributed services and facilities:

Contributed services and facilities include the following for the years ended June 30:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Contributed services | | 273,428 | | 533,094 |
| Contributed use of facilities | | 1,298,939 | | 1,304,886 |
| Total contributed services and facilities | $ | 1,572,367 | $ | 1,837,980 |

## Note 6 - Property and equipment:

Property and equipment consisted of the following at June 30:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Exhibits | $ | 24,383,674 | $ | 23,530,586 |
| Leasehold improvements | | 10,007,454 | | 10,007,454 |
| Furniture, fixtures and improvements | | 8,221,294 | | 8,191,166 |
| Construction-in-progress | | 638,038 | | 926,174 |
| Total property and equipment | | 43,250,460 | | 42,655,380 |
| Less: accumulated depreciation and amortization | | (37,747,564) | | (36,667,799) |
| Property and equipment, net | $ | 5,502,896 | $ | 5,987,581 |

Depreciation and amortization expense for the years ended June 30, 2010 and 2009 was approximately $1,090,000 and $2,221,000, respectively.

## Note 7 - Capital lease obligation:

In 2010, the Organization entered into a capital lease arrangement for equipment with a cost of approximately $48,000 and related accumulated amortization of approximately $8,000. The lease expires in August 2014 and requires monthly payments of approximately $860 and bears interest of 3% per annum.

**Note 7 - Capital lease obligation (continued):**

At June 30, 2010 the future minimum annual obligation under the agreement was as follows:

| Year Ending June 30, | | Amount |
|---|---|---|
| 2011 | $ | 10,352 |
| 2012 | | 10,352 |
| 2013 | | 10,352 |
| 2014 | | 10,352 |
| 2015 | | 1,725 |
| Total payments | | 43,133 |
| Less amounts representing interest | | (2,633) |
| Present value of minimum lease | | 40,500 |
| Less portion due within one year | | (10,352) |
| Portion due after one year | $ | 30,148 |

**Note 8 - Temporarily restricted net assets:**

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

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Use of facilities | $ | 21,546,987 | $ | 21,648,988 |
| Special Projects | | 2,237,896 | | 2,973,076 |
| Operations | | 1,628,579 | | 625,000 |
| Receivables | | 2,200,108 | | - |
| Total temporarily restricted net assets | $ | 27,613,570 | $ | 25,247,064 |

**Note 9 - Temporarily restricted net assets released from restrictions:**

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

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Use of facilities | $ | 1,404,000 | $ | 1,404,000 |
| Special projects | | 1,388,482 | | 1,858,220 |
| Operations | | 1,824,287 | | 1,343,122 |
| Total temporarily restricted net assets | $ | 4,616,769 | $ | 4,605,342 |

## Note 10 - Permanently restricted net assets:

The Tech's endowment consists of 39 individual funds established for a variety of purposes. Its endowment includes only donor-restricted funds. As required by 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 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 Tech classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. All investment income generated from these investments can be utilized for a variety of programs of The Tech and are recorded as unrestricted income when earned. The Organization had the following endowment-related activities, all of which were permanently restricted for the years ended June 30:

| | 2010 | 2009 |
|---|---|---|
| Beginning of the year | $ 12,675,167 | $ 12,677,493 |
| Less: release from restriction with donor consent | - | - |
| Add: restricted gifts received | 10,539 | 10,000 |
| Less: uncollectible pledges and present value adjustment | - | (12,326) |
| Endowment net assets, end of year | $ 12,685,706 | $ 12,675,167 |

The investments of the endowment fund are diversified to help minimize the overall risk of the portfolio. The primary objectives of the investments of the endowment fund are to preserve the real purchasing power of the principal and provide a stable source of perpetual financial support. On an annualized, net-of-fees 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 (CPI) over a rolling five-year period. Additionally, the returns should show favorable, relative performance characteristics.

It is The Tech Museum's policy, subject to a maximum distribution defined as 5% of the three-year moving average of the endowment funds assets, to determine each fiscal year the appropriate cash distribution from the endowment fund to its operating fund provided, however, that in no event will the spending policy adopted result in reducing the value of the endowment fund's assets below their historical book/par value. It is understood that a total return approach to determine spending is authorized by comprehensive prudent standards for the expenditure of funds under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") setting guidelines which The Tech Museum is permitted to spend an amount in excess of the current yield (interest and dividends earned) to include realized or unrealized appreciation.

## Note 11 - Related party transactions:

The Tech Museum's volunteer members of the Board of Directors are active in oversight of fundraising events, activities and in making private contributions. Contributions received from the Board of Directors or from companies with which the Board of Directors are affiliated were approximately $3,742,475 and $4,220,000 for the years ended June 30, 2010 and 2009, respectively.

Of the total pledges receivable, and other receivables, amounts due from the Board of Directors or from companies with which the Board of Directors are affiliated were approximately $1,069,400 and $122,000 at June 30, 2010 and 2009, respectively.

The Tech has a less than 10% investment in a partnership in which one of the members of the Board of Directors is an owner. The fair value of this investment was $381,067 and $430,110 at June 30, 2010 and 2009, respectively.

During 2008, The Tech entered into a two year contract, valued at approximately $400,000, with an outside company for design consulting work on a comprehensive corporate identity program. This contract was awarded after a competitive bid process was completed and approved by The Tech's Board of Directors. The sole owner of the outside company, the spouse of The Tech's President, did not report to management of The Tech, but to a member of The Tech's Board of Directors. The Tech's President recused himself from the Board's discussion and vote on such contract. The contract expired on March 31, 2010.

The Tech has entered into a sub-lease agreement with the above consulting company for an undefined period of time. In lieu of rent, The Tech receives $1,000 a month for common area maintenance expenses.

## Note 12 - Line of credit:

The Tech has a line of credit agreement, expiring January 31, 2011. Borrowings under the agreement bear interest at the bank's prime rate (3.25% at June 30, 2010 and 2009). During the year ended June 30, 2010, The Tech did not draw on its line of credit. During the year ended June 30, 2009, The Tech drew $1,600,000 on its line of credit and repaid all amounts as of year end. At June 30, 2010 and 2009, there were no outstanding balances.

**Note 13 - Major contributions:**

For the year ended June 30, 2010, fourteen donors accounted for 71% of contributed support. For the year ended June 30, 2009, nine donors accounted for 42% of contributed support.

**Note 14 - 457(b) deferred compensation plan:**

In 1999, The Tech initiated a Key Employee Option Plan (the "Option Plan") whereby selected employees entered into pre-tax compensation reduction option agreements with The Tech, concurrent with being awarded non-qualified options to purchase shares in a fund. The number of non-qualified options granted is based on actual compensation reduction amounts assuming a 25% discount from fair market value to be paid upon exercise. The fund is comprised of two mutual funds and had a fair value of approximately $10,000 and $12,000 at June 30, 2010 and 2009, respectively. The fund was created with the monies contributed by The Tech and employees as specified in their respective compensation reduction option agreements. In 1999, The Tech had awarded options to four employees, all of which were exercisable, and, subsequently, froze participation in the Option Plan. During June 30, 2010 and 2009, one employee exercised previously awarded options. Included in accrued expenses at June 30, 2010 and 2009 are $6,662 and $9,050, respectively, associated with this Option Plan.

**Note 15 - Section 125 cafeteria plan:**

The Tech offers a flexible employee benefit section 125 cafeteria plan (the "125 Plan") to allow eligible employees to choose one or more of the benefits offered through the 125 Plan to make pre-tax contributions for qualified benefits.

**Note 16 - Qualified transportation benefits plan:**

The Tech offers an employee benefit program known as a "Transportation Fringe Benefit Plan" for all eligible employees. The purpose of the plan is to provide pre-tax funds to reimburse employees for transportation expenses.

**Note 17 - 403(b) defined contribution plan:**

The Tech offers a 403(b) defined contribution plan (the "403(b) Plan") in which eligible employees who have met certain service and eligibility requirements may participate. Each eligible employee may elect to contribute to the 403(b) Plan, and the Organization may make qualified non-elective discretionary contributions. The Tech did not make any contributions for the years ended June 30, 2010 and 2009.

**Note 18 - 403(b) TDA plan:**

The Tech offered a 403(b) TDA defined contribution plan (the "TDA Plan") in which eligible employees who had met certain service and eligibility requirements may have participated. Currently, the TDA Plan is frozen for any entry into the plan, however, it remains open as there is an employee with an account balance.

**Note 19 - Commitments:**

The Tech had an original 10-year lease commitment for the IMAX Theater, expiring in October 2008, and elected to prepay the minimum lease value in 1998. The lease was renegotiated in March of 2008 and the term extended through October 2011, and included prepayment of the minimum lease value. The Tech is amortizing the prepayments over the terms of the lease and recognizes lease expense annually, through 2011. For the years ended June 30, 2010 and 2009, the amortization was $93,113 and $129,917, respectively. The Tech is subject to additional rent payments based on 7% of annual gross revenues over $2,000,000 from the IMAX Theater for the period ending October 2008, and 4% of annual gross revenues over $3,000,000 from the IMAX Theater for the period November 2008 through October 2011. The Tech did not incur any additional rent for the years ended June 30, 2010 and 2009.

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