

# **THE TECH MUSEUM OF INNOVATION**

**Financial Statements and  
Report of Independent Certified Public Accountants  
Required by OMB Circular A-133**

**December 31, 1997 and 1996**

**Report of Independent Certified Public Accountants  
on Schedule of Federal Awards**

**Grant Thornton**   
GRANT THORNTON LLP Accountants and  
Management Consultants  
The U.S. Member Firm of  
Grant Thornton International

Board of Directors  
The Tech Museum of Innovation

We have audited the accompanying statements of financial position of The Tech Museum of Innovation (the "Organization") (a California nonprofit corporation) as of and December 31, 1997 and 1996, and the related statements of activities 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 1997 and 1996, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 1998 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying Schedule of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Not-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

*Grant Thornton LLP*

San Jose, California  
April 28, 1998

The Tech Museum of Innovation

STATEMENTS OF FINANCIAL POSITION

December 31,

	1997			1996		
	Unrestricted	Temporarily	Permanently	Unrestricted	Temporarily	Permanently
		Restricted	Restricted		Restricted	Restricted
	Total	Total	Total	Total	Total	Total
<b>ASSETS</b>						
Cash	\$ 2,451	\$ 502,273	\$ -	\$ 1,550	\$ 670,448	\$ -
Receivable from the sale of investments	-	65,802	-	-	93,521	-
Investments	-	11,050,190	-	-	8,138,435	-
Contributed support receivable, net	171,390	8,604,923	-	130,965	6,253,885	-
Public support receivable, net	-	485,437	-	-	1,414,306	-
Receivable for contributed use of facility, net	-	21,374,326	-	-	20,369,863	-
Grants receivable, net	138,656	-	-	37,582	-	-
Other receivable	31,850	12,018	-	37,875	4,417	-
Prepaid expenses and other assets	751,361	22,252	-	767,500	12,843	-
Inventory	64,358	-	-	88,007	-	-
Property and equipment, net	431,998	-	-	464,056	-	-
Construction-in-progress	4,291,271	-	-	1,172,723	-	-
Beneficial interest in trust	-	-	140,806	-	-	120,593
	<u>\$ 5,883,335</u>	<u>\$ 42,117,221</u>	<u>\$ 140,806</u>	<u>\$ 2,700,258</u>	<u>\$ 36,957,718</u>	<u>\$ 120,593</u>
						<u>\$ 39,778,569</u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>Liabilities</b>						
Accounts payable and accrued expenses	\$ 424,868	\$ 201,639	\$ -	\$ 232,129	\$ 132,510	\$ -
Payable (receivable) between net asset categories	(999,871)	959,065	40,806	(58,170)	37,577	20,593
Total liabilities	(575,003)	1,160,704	40,806	173,959	170,087	20,593
<b>Net assets</b>						
Unrestricted	1,735,069	-	-	889,520	-	-
Undesignated	-	-	-	-	-	-
Designated for property, equipment and construction in progress	4,723,269	-	-	1,636,779	-	-
Temporarily restricted	-	40,956,517	-	-	36,787,631	-
Permanently restricted	-	-	100,000	-	-	100,000
Total net assets	<u>6,458,338</u>	<u>40,956,517</u>	<u>100,000</u>	<u>2,526,299</u>	<u>36,787,631</u>	<u>100,000</u>
						<u>\$ 39,413,930</u>
	<u>\$ 5,883,335</u>	<u>\$ 42,117,221</u>	<u>\$ 140,806</u>	<u>\$ 2,700,258</u>	<u>\$ 36,957,718</u>	<u>\$ 120,593</u>
						<u>\$ 39,778,569</u>

The accompanying notes are an integral part of these statements.

The Tech Museum of Innovation

STATEMENTS OF ACTIVITIES

Years ended December 31,

	1997			1996				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributed support, net	\$ 1,863,065	\$ 7,947,066	\$ -	\$ 9,810,131	\$ 1,220,995	\$ 6,101,448	\$ -	\$ 7,322,443
Donated property, services and rent	213,389	2,692,232	-	2,905,621	412,427	2,943,880	-	3,356,307
Admissions and fees	693,882	-	-	693,882	558,220	-	-	558,220
Special events, net of expenses of \$543,284 and \$346,177 in 1997 and 1996	186,452	-	-	186,452	274,985	-	-	274,985
Store revenue	224,012	-	-	224,012	200,667	-	-	200,667
Federal awards	359,374	-	-	359,374	237,986	-	-	237,986
Interest income	515,838	20,213	-	536,051	341,891	23,231	-	365,122
Net investment realized/unrealized gain (loss)	1,577	-	-	1,577	(7,450)	-	-	(7,450)
Other income	424	-	-	424	10,454	-	-	10,454
Net assets released from restriction:	6,490,625	(6,490,625)	-	-	4,250,687	(4,250,687)	-	-
Total support and revenue	10,548,638	4,168,886	-	14,717,524	7,500,862	4,817,872	-	12,318,734
Expenses:								
Program services								
Museum project	351,823	-	-	351,823	437,483	-	-	437,483
Exhibits, programs, and experiences	2,854,591	-	-	2,854,591	2,398,223	-	-	2,398,223
Visitor services	314,895	-	-	314,895	384,197	-	-	384,197
Education	449,197	-	-	449,197	292,408	-	-	292,408
Supporting services								
Development and public relations	1,726,702	-	-	1,726,702	1,341,053	-	-	1,341,053
Management and general	919,391	-	-	919,391	799,396	-	-	799,396
Total expenses	6,616,599	-	-	6,616,599	5,652,760	-	-	5,652,760
Change in net assets before cumulative effect of change in accounting principle	3,932,039	4,168,886	-	8,100,925	1,848,102	4,817,872	-	6,665,974
Cumulative effect of change in accounting principle	-	-	-	-	-	19,433,259	-	19,433,259
Change in net assets	3,932,039	4,168,886	-	8,100,925	1,848,102	24,251,131	-	26,099,233
Net assets at beginning of year	2,526,299	36,787,631	100,000	39,413,930	678,197	12,536,500	100,000	13,314,697
Net assets at end of year	\$ 6,458,338	\$ 40,956,517	\$ 100,000	\$ 47,514,855	\$ 2,526,299	\$ 36,787,631	\$ 100,000	\$ 39,413,930

The accompanying notes are an integral part of these statements.

The Tech Museum of Innovation

STATEMENTS OF CASH FLOWS

Years ended December 31,

	<u>1997</u>	<u>1996</u>
Cash flows from operating activities:		
Change in net assets	\$ 8,100,925	\$ 26,099,233
Cumulative effect of change in accounting principle	-	(19,433,259)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	150,876	198,430
Provision for estimated uncollectible contributed support	89,092	120,733
Present value adjustment, net	(1,040,269)	(1,212,694)
Contributions restricted for long-term investment	(7,947,066)	(6,101,448)
Unrealized gains	(1,577)	7,450
Changes in operating assets and liabilities:		
Support receivables	(1,515,880)	(645,371)
Grants receivable and inventory	(79,001)	(48,086)
Prepays and other	6,730	(562,089)
Accounts payable and accrued expenses	<u>261,867</u>	<u>123,240</u>
Net cash used in operating activities	(1,974,303)	(1,453,861)
Cash flows from investing activities:		
Additions to property and equipment and construction-in-progress	(3,237,366)	(1,150,889)
Acquisitions of investments	(11,715,057)	(10,328,323)
Proceeds from sales of investments	<u>8,812,386</u>	<u>6,966,354</u>
Net cash used in investing activities	(6,140,037)	(4,512,858)
Cash flows from financing activities:		
Contributions restricted for long-term investment	<u>7,947,066</u>	<u>6,101,448</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (167,274)	 134,729
Cash and cash equivalents, beginning of year	<u>671,998</u>	<u>537,269</u>
Cash and cash equivalents, end of year	<u>\$ 504,724</u>	<u>\$ 671,998</u>

Supplemental schedule of noncash investing activities:

In 1997 and 1996, respectively, the Organization received donations of equipment of approximately \$1,588,000 and \$1,000,000, and investments of approximately \$512,400 and \$338,000.

The accompanying notes are an integral part of these statements.

**The Tech Museum of Innovation**  
**NOTES TO FINANCIAL STATEMENTS**

**December 31, 1997 and 1996**

**NOTE A - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

**1. Nature of Operations**

The Tech Museum of Innovation ("The Tech") was incorporated on January 11, 1983 as a nonprofit public benefit corporation. The specific purpose of The Tech is to administer the financing, construction and operation of a high technology science museum.

The Tech has entered into an agreement with the City of San Jose (the "City") for the lease of certain building space for a nominal fee. The building space will house The Tech's temporary science museum until the permanent facility is completed. The Tech will lease the permanent facility from the City under similar terms. The Tech's support and revenue comes primarily through contributions, federal awards, admissions and fees, and store revenue.

**2. Categories of Net Assets**

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

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

**3. Contributed Support**

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

**4. Functional Classification of Expenses**

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

**5. Investments**

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

**The Tech Museum of Innovation**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**December 31, 1997 and 1996**

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

6. Inventory

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

7. Property and Equipment

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

8. Construction-In-Progress

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

9. Donated Property, Services and Use of Facility

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

10. Tax Exempt Status

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

11. Use of Estimates

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

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1997 and 1996

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

The Tech's allowance for estimated uncollectible contributed support receivables of \$546,865 and \$457,772, at December 31, 1997 and 1996, respectively are particularly significant estimates. The determination of the balance in this account is based on an analysis of the receivables and reflects an amount which, in management's judgment, is adequate to provide for potential losses after giving consideration to the character of the receivables, current economic conditions, past collection experience and such other factors that deserve current recognition in estimating losses.

12. Expiration of Donor-Imposed Restrictions

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

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

13. Federal Awards

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

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

14. Reclassifications

Certain reclassifications have been made to the 1996 balances to conform to the 1997 presentation.

NOTE B - CHANGE IN ACCOUNTING PRINCIPLES AND PRESENTATION

Effective January 1, 1996, the Tech adopted the provisions of *1996 AICPA Audit and Accounting Guide for Not-For-Profit Organizations* (the "Guide"). The Guide requires the recognition of contribution revenue and a receivable for the present value of the promise for rent-free use of the facility, as described in Note F. The cumulative effect of this change in accounting was to increase net assets at January 1, 1996 by \$19,433,259. The adoption of the Guide decreased 1996 change in net assets by \$194,400, when compared to what would have been recorded under the prior methodology.



**The Tech Museum of Innovation**  
**NOTES TO FINANCIAL STATEMENTS (continued)**  
**December 31, 1997 and 1996**

**NOTE C - INVESTMENTS AND BENEFICIAL INTEREST IN TRUST**

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

	1997		
	Interest Income	Net Realized Gains	Fair Value
U.S. Government Securities	\$ 453,720	\$ -	\$10,960,106
Equity Securities	3,150	1,577	90,084
Beneficial Interest in Trust	20,213	-	140,806
	477,083	1,577	11,190,996
Cash	58,968	-	504,724
	<b>\$ 535,051</b>	<b>\$ 1,577</b>	<b>\$11,695,720</b>
	1996		
	Interest Income	Net Realized Loss	Fair Value
U.S. Government Securities	\$ 307,160	\$ -	\$ 8,081,353
Equity Securities	3,200	(7,450)	57,082
Beneficial Interest in Trust	14,205	-	120,593
	324,565	(7,450)	8,259,028
Cash	40,557	-	671,998
	<b>\$ 365,122</b>	<b>\$ (7,450)</b>	<b>\$ 8,931,026</b>

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

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1997 and 1996

NOTE D - CONTRIBUTED SUPPORT RECEIVABLE

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

	December 31, 1997		
	Contributed Support	Contributed Public Support	Contributed Use of Facility
1998	\$ 7,290,067	\$ 500,000	\$ 194,400
1999	1,880,029	-	1,404,000
2000	730,833	-	1,404,000
2001	47,516	-	1,404,000
2002	10,000	-	1,404,000
2003 and thereafter	-	-	71,604,000
	9,958,445	500,000	77,414,400
Less discount for present value	(635,267)	(14,563)	(56,040,074)
Less allowance for estimated uncollectible contributed support	(546,865)	-	-
	<u>\$ 8,776,313</u>	<u>\$ 485,437</u>	<u>\$ 21,374,326</u>
	December 31, 1996		
	Contributed Support	Contributed Public Support	Contributed Use of Facility
1997	\$ 5,644,605	\$ 1,000,000	\$ 194,400
1998	1,090,748	500,000	194,400
1999	386,975	-	1,404,000
2000	105,836	-	1,404,000
2001	20,000	-	1,404,000
2002 and thereafter	-	-	73,008,000
	7,248,164	1,500,000	77,608,800
Less discount for present value	(405,542)	(85,694)	(57,238,937)
Less allowance for estimated uncollectible contributed support	(457,772)	-	-
	<u>\$ 6,384,850</u>	<u>\$ 1,414,306</u>	<u>\$ 20,369,863</u>

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

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1997 and 1996

NOTE E - CONDITIONAL CONTRIBUTED SUPPORT

The Tech has received a funding commitment from the City for \$1,300,000 of annual support which is conditioned on the opening of the new museum and the City's annual ability to fund the contribution. The contribution is for operation and maintenance costs and spans the life of the related lease discussed in Note F. This contribution has not been reflected in the accompanying financial statements as the donor-imposed conditions had not been met as of December 31, 1997.

NOTE F - CITY OF SAN JOSE AND SAN JOSE REDEVELOPMENT AGENCY

In 1994, The Tech signed revised and updated agreements with both the City and the San Jose Redevelopment Agency ("SJRDA") with respect to the construction of a new museum facility. In accordance with the agreements, the SJRDA will construct the museum which the City will own and lease to The Tech for 55 years at a nominal fee. The Tech is responsible for raising the funds for developing and installing exhibits, leasehold improvements and equipment. Completion of this project is anticipated for 1998.

The agreement with the City provides for the conditional contribution discussed in Note E as well as a contribution to fund start-up costs for which The Tech has recorded a contributed public support receivable of \$485,437 and \$1,414,306 representing the present value of the amounts to be received at December 31, 1997 and 1996, respectively. The SJRDA agreement also provides for contributions to The Tech for certain exhibit development and project management costs.

NOTE G - PROPERTY AND EQUIPMENT

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

	<u>1997</u>	<u>1996</u>
Exhibits and furnishings	\$ 6,670,341	\$ 6,643,741
Furniture, fixtures and improvements	899,539	864,582
Leasehold improvements	<u>2,093,212</u>	<u>2,035,949</u>
	9,663,092	9,544,272
Less: accumulated depreciation	<u>9,231,094</u>	<u>9,080,216</u>
	<u>\$ 431,998</u>	<u>\$ 464,056</u>

Depreciation expense for the years ended December 31, 1997 and 1996 was \$150,876 and \$198,430, respectively.

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1997 and 1996

NOTE H - RELATED PARTY TRANSACTIONS

For the years ended December 31, 1997 and 1996, The Tech received cash and stock contributions and equipment donations amounting to \$9,447,000 and \$4,410,000, respectively, from members of the Board of Directors of The Tech or companies with which the Board of Directors are affiliated. At December 31, 1997 and 1996, the present value of contributed support receivables from these related parties approximated \$4,709,000 and \$3,200,000, respectively.

NOTE I - COMMITMENTS

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

Year ending December 31,

1998	\$ 135,228
1999	172,614
2000	105,000
2001	105,000
2002	105,000
2003 and thereafter	<u>630,000</u>
	<u>\$ 1,252,842</u>

In 1997 and 1996, total rent expense was \$301,023 and \$305,206, respectively, including \$194,400 representing the contributed use of the facility for both 1997 and 1996.

Included in the commitments above is the obligation for lease payments for the IMAX theater which will be a feature of the new museum upon completion. Lease payments are based on 7% of the theater admissions or a minimum of \$350 per seat, per year, for a minimum of \$105,000 each year over the term of the 10 year lease.

With respect to the new museum, The Tech has entered into contracts with fabricators for exhibit construction and installation which will be completed in 1998. At December 31, 1997, outstanding commitments under these contracts approximated \$1,600,000.

NOTE J - MAJOR CONTRIBUTIONS

In 1997, 4 donors accounted for 67% of contributed support. In 1996, 4 donors accounted for 48% of contributed support.

The Tech Museum of Innovation

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 1997 and 1996

NOTE K - EMPLOYEE BENEFIT PLAN

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

NOTE L - NET ASSETS

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

	<u>1997</u>		<u>1996</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Education	\$ 2,032,000	\$ 100,000	\$ 81,000	\$ 100,000
New museum	17,550,191	-	16,336,768	-
Use of facilities	<u>21,374,326</u>	<u>-</u>	<u>20,369,863</u>	<u>-</u>
	<u>\$ 40,956,517</u>	<u>\$ 100,000</u>	<u>\$ 36,787,631</u>	<u>\$ 100,000</u>

NOTE M - NET ASSETS RELEASED FROM RESTRICTION

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

	<u>1997</u>	<u>1996</u>
Purposes restrictions accomplished:		
Education	\$ 20,213	\$ 20,593
New museum	6,276,012	4,035,694
Time restriction met:		
Use of facilities	<u>194,400</u>	<u>194,400</u>
	<u>\$ 6,490,625</u>	<u>\$ 4,250,687</u>

**SUPPLEMENTARY INFORMATION**

The Tech Museum of Innovation

SCHEDULE OF FEDERAL AWARDS

Year ended December 31, 1997

Federal Grantor Program Title	Federal CFDA Number	Grantor's Number	Program Award Amount	Federal Award Revenue	Expenditures Covered Directly By Grants	The Tech Matching Expenditures
<u>National Science Foundation</u> (one major program)						
"Exploration: An Exhibit About the Discovery of Our World and the World Beyond"	47.076	ESI-9627196	\$ 644,738	\$ 193,099	\$ 193,099	\$1,278,551
"Innovation I: An Exhibit to Foster an Understanding of and Invite Participation in the Process of Innovation"	47.076	ESI-9552566	306,676	50,522	50,522	526,487
"Innovation II: An Exhibit to Foster an Understanding of and Invite Participation in the Process of Innovation"	47.076	ESI-9705633	393,725	65,722	65,722	266,659
Total National Science Foundation			1,345,139	309,343	309,343	2,071,697
<u>United States Department of Commerce</u>						
"A Cooperative Agreement: An Exhibit to Foster an Understanding of Technological Innovation, as Embodied by the National Medal of Technology Presidential Awards"	II.XXX	9846165	50,000	37,366	37,366	-
Other			-	12,665	12,665	N/A
			\$1,395,139	\$359,374	\$359,374	\$2,071,697

**Report of Independent Certified Public Accountants**  
**on Internal Control Over Financial Reporting**  
**Based on an Audit of Financial Statements Performed in**  
**Accordance with Government Auditing Standards**

Board of Directors  
The Tech Museum of Innovation

We have audited the financial statements of The Tech Museum of Innovation (the "Organization"), as of and for the year ended December 31, 1997, and have issued our report thereon dated April 28, 1998. We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 97-3 and 97-4.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-1 and 97-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the design and operation of the internal control over financial reporting, which we have reported to the management of the Organization in a separate letter dated April 28, 1998.



This report is intended for the information of the finance committee, management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Grant Thornton LLP*

San Jose, California  
April 28, 1998

**Report of Independent Certified Public Accountants on  
Compliance with Requirements Applicable to Each Major Program and on  
Internal Control Over Compliance in Accordance with OMB Circular A-133**

Board of Directors  
The Tech Museum of Innovation

**Compliance**

We have audited the compliance of The Tech Museum of Innovation (the "Organization") with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 1997. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program, has occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

As described in items 97-3 and 97-4 in the accompanying schedule of findings and questioned costs, the Organization did not comply with some requirements regarding cost principles and reporting that are applicable to its major program. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 1997.

**Internal Control Over Compliance**

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance, that, in our judgment, could adversely affect the Organization's ability to administer a major federal program in accordance with the applicable laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-1 and 97-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that non-compliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Gaut Thornton LLP*

San Jose, California  
April 28, 1998

**The Tech Museum of Innovation**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the year ended December 31, 1997**

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**SECTION I — SUMMARY OF AUDITOR'S RESULTS**

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Financial Statements

Type of auditor's report issued: ..... unqualified

Internal control over financial reporting:

- Material weakness identified? .....no
- Reportable conditions identified that are not considered to be material weaknesses?..... yes

Noncompliance material to financial statements noted?.....no

Federal Awards

Internal control over major programs:

- Material weakness identified? .....no
- Reportable conditions identified that are not considered to be material weaknesses?..... yes

Type of auditor's report issued on compliance for major programs:..... qualified (for major program)

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ..... yes

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

47.076

Exploration/Innovation

Dollar threshold used to distinguish between type A and type B programs:.....\$100,000

Auditee qualified as low-risk auditee?.....no

The Tech Museum of Innovation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended December 31, 1997

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SECTION II — FINANCIAL STATEMENT FINDINGS

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97-1 Finding

During fiscal year 1997, the Tech's key internal control procedure surrounding the main operating bank account was to review the monthly bank statement for reasonableness. Formal bank reconciliations for the account were not performed until late 1997 and early 1998.

**Questioned Costs**

None.

**Recommendation**

Timely and thorough bank reconciliations are a key internal control over both cash disbursements as well as interbank transfers. Failure to timely reconcile outstanding items increases the chances of misstatement of bank account balances or other financial statement accounts and increase the potential for undetected misappropriation of the Organization's assets. Accordingly, we recommend formal bank reconciliations be performed on a monthly basis.

**Management's Response**

A system to reconcile the main bank statement has been established and the reconciliations are being completed on a monthly basis. During 1997, the main bank statement was not reconciled in a timely manner because of changes in personnel that delayed the initialization of the bank reconciliation system.

97-2 Finding

The Tech's management personnel responsible for approving changes in employee salaries do not consistently sign the "change in employee status forms" which are forwarded to Human Resources for processing. Human Resources, in turn, will adjust salary within the payroll system without evidence of such approval on the forms.

**Questioned Costs**

None.

**Recommendation**

We recommend all "change in employee status forms" be signed by management and that Human Resources refuse to adjust pay rates in the payroll system without such documented approval. This will prevent unauthorized changes being made to the payroll system.

**Management's Response**

Human Resources will require that all "Change in Employee Status" forms be signed by the appropriate management prior to adjusting pay rates consistent with the Financial Policies of the Tech. It was an oversight that the forms for the annual merit increase which were extensively reviewed and approved by management in the 1997 Compensation Review Meeting were not also signed by management.

The Tech Museum of Innovation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the year ended December 31, 1997

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SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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97-1 See Section II.

97-2 See Section II.

97-3 **Finding**

As a recipient of federal grants, the Tech is required to comply with Office of Management and Budget (OMB) Circular A-122 "Cost Principles for Non-Profit Organizations" which establishes the principles for charging costs to federal grants. Included within the provisions of OMB Circular A-122 are specific requirements relating to support for any salaries and wages charged to a grant. The circular requires that reports (time cards or equivalent) reflecting the distribution of activity of each employee must be maintained for all staff members whose compensation is charged, in whole or in part, directly to a federal grant. These reports must be prepared at least monthly and must coincide with one or more pay periods. Furthermore, these reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, and that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. The time reports currently used by the Tech do require employee and supervisory signatures but they do not expressly indicate the number of hours spent on a federal grant project as required by OMB Circular A-122. Hours charged to federal grants are, instead, maintained on a separate spreadsheet which is not necessarily maintained on a monthly basis.

**Questioned Costs**

None.

**Recommendation**

We recommend that the Tech's procedures to track salaries and wages charged to Federal programs be modified so that distribution of an employee's activity is reflected directly on their time card.

**Management's Response**

The current procedure that requires authorization by the project manager for the allocation of compensation charges for employee to federal grants will be performed on a monthly basis. The procedure will also be followed for allocation of compensation charges for employees that are a part of the Tech's matching for the federal grants.

**The Tech Museum of Innovation**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**

**For the year ended December 31, 1997**

**97-4 Finding**

As a recipient of several Federal grants from the National Science Foundation ("NSF"), the Tech is required to report expenditures incurred on those grants to the cognizant NSF officer on an annual basis. We noted that the costs reported to National Science Foundation in the annual submission were estimates provided by the project managers instead of the actual and matching costs incurred as tracked in the accounting department. Furthermore, there was no reconciliation of these reported costs to actual cost data maintained by the accounting department.

**Questioned Costs**

None.

**Recommendation**

We recommend that the Tech use actual cost data tracked by the accounting department when reporting expenditures on the Federal grants to NSF.

**Management's Response**

The Tech's financial records will be used as the basis for reporting the cost data to the National Science Foundation's annual project reports.