

ZERO1: THE ART & TECHNOLOGY NETWORK

Audited Financial Statements

JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
ZERO1: The Art & Technology Network:

We have audited the accompanying statement of financial position of ZERO1: The Art & Technology Network (a nonprofit organization) as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements which were audited by Berger Lewis, Certified Public Accountants, whose report dated November 15, 2010 expressed an unqualified opinion on those financial statements..

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ZERO1: The Art & Technology Network as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of Actual Activities and Budget Comparison is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of Actual Activities and Budget Comparison 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. We have not examined the budget information and, accordingly, do not express an opinion or any other form of assurance on it. Furthermore, there will usually be differences between the budget and actual results, due to events and circumstances that do not occur as expected, and these differences may be material.



Pleasanton, California
November 2, 2011

ZERO1: The Art Technology Network
Statement of Financial Position
June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2011</u>	<u>Summarized 2010</u>
ASSETS				
Cash and cash equivalents	\$47,911	\$25,000	\$72,911	\$507,007
Grants receivable	325,746	210,000	535,746	346,375
Pledges receivable				24,140
Prepaid expenses	2,273		2,273	210,070
TOTAL CURRENT ASSETS	<u>375,930</u>	<u>235,000</u>	<u>610,930</u>	<u>1,087,592</u>
Grants receivable, long term, net		60,000	60,000	
Deposits	3,495		3,495	3,357
Property and equipment, net	46,388		46,388	65,230
TOTAL ASSETS	<u>\$425,813</u>	<u>\$295,000</u>	<u>\$720,813</u>	<u>\$1,156,179</u>
LIABILITIES				
Accounts payable	\$40,068		\$40,068	\$32,158
Accrued compensation	7,676		7,676	4,996
Short term loan	50,000		50,000	
Deferred revenue				1,350
TOTAL CURRENT LIABILITIES	<u>97,744</u>		<u>97,744</u>	<u>38,504</u>
NET ASSETS				
Unrestricted	328,069		328,069	459,230
Temporarily restricted		\$295,000	295,000	658,445
TOTAL NET ASSETS	<u>328,069</u>	<u>295,000</u>	<u>623,069</u>	<u>1,117,675</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$425,813</u>	<u>\$295,000</u>	<u>\$720,813</u>	<u>\$1,156,179</u>

The accompanying notes are an integral part of this financial statement.

ZERO1: The Art Technology Network
Statement of Activities
For the Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Total 2011	Summarized 2010
SUPPORT AND REVENUE				
Contributions	\$69,143		\$69,143	\$44,450
Grants & awards	582,600	\$405,000	987,600	1,333,850
In-kind donations	48,690		48,690	
Special events, net	20,237		20,237	
Interest income	16		16	
Art exhibit fees	3,000		3,000	30,000
Miscellaneous income				5,619
Net assets released from temporary restrictions				
Expiration of purpose & time restrictions	768,445	(768,445)		
Total Support and Revenue	<u>1,492,131</u>	<u>(363,445)</u>	<u>1,128,686</u>	<u>1,413,919</u>
EXPENSES				
Program services				
Art activities	1,328,327		1,328,327	652,666
Supporting services				
Management and general	171,859		171,859	145,220
Fund-raising	123,106		123,106	173,347
Total Expenses	<u>1,623,292</u>		<u>1,623,292</u>	<u>971,233</u>
INCREASE / (DECREASE) IN NET ASSETS	(131,161)	(363,445)	(494,606)	442,686
NET ASSETS AT BEGINNING OF YEAR	<u>459,230</u>	<u>658,445</u>	<u>1,117,675</u>	<u>674,989</u>
NET ASSETS AT END OF YEAR	<u>\$328,069</u>	<u>\$295,000</u>	<u>\$623,069</u>	<u>\$1,117,675</u>

The accompanying notes are an integral part of this financial statement.

ZERO1: The Art Technology Network
Statement of Functional Expenses
For the Year Ended June 30, 2011

	Program Services	Supporting Services			Total	Summarized
	Art Activities	Mgmt & General	Fund-Raising	Total	2011	2010
Compensation	\$175,623	\$71,691	\$82,682	\$154,373	\$329,996	\$413,171
Payroll taxes	11,570	7,306	6,014	13,320	24,890	34,124
Employee benefits	12,794	16,886	3,783	20,669	33,463	71,035
Subtotal compensation	<u>199,987</u>	<u>95,883</u>	<u>92,479</u>	<u>188,362</u>	<u>388,349</u>	<u>518,330</u>
Bad debts						250
Catering receptions / events	7,029		8,011	8,011	15,040	7,862
Conferences & meetings	443	1,090	282	1,372	1,815	
Dues, fees, licenses etc.	14,374	4,193	32	4,225	18,599	2,944
Equipment lease / purchase	52,751				52,751	710
Facility rental	99,855	1,429		1,429	101,284	
Honorariums	496,538				496,538	
Insurance	5,400	2,575		2,575	7,975	3,310
Interest expense		413		413	413	
Marketing costs	85,018				85,018	52,865
Occupancy & storage	1,698	17,336		17,336	19,034	21,459
Outside services	260,488	596	20,478	21,074	281,562	160,619
Postage	2,653	787	81	868	3,521	2,000
Printing	23,764				23,764	9,848
Professional services		40,060		40,060	40,060	82,615
Program materials	48,668				48,668	45,047
Supplies		1,956		1,956	1,956	5,122
Telephone & internet	180	2,415		2,415	2,595	4,388
Travel	13,131	2,379		2,379	15,510	31,677
Total before depreciation	<u>1,311,977</u>	<u>171,112</u>	<u>121,363</u>	<u>292,475</u>	<u>1,604,452</u>	<u>949,046</u>
Depreciation	<u>16,350</u>	<u>747</u>	<u>1,743</u>	<u>2,490</u>	<u>18,840</u>	<u>22,187</u>
Total Expenses	<u>\$1,328,327</u>	<u>\$171,859</u>	<u>\$123,106</u>	<u>\$294,965</u>	<u>\$1,623,292</u>	<u>\$971,233</u>

The accompanying notes are an integral part of this financial statement.

ZERO1: The Art Technology Network
Statement of Cash Flows
For the Year Ended June 30, 2011

	<u>Total 2011</u>	<u>Summarized 2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	(\$494,606)	\$442,686
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	18,840	22,187
(Increase) decrease in operating assets		
Grants receivable	(189,371)	66,125
Pledges receivable	24,140	37,063
Prepaid expenses	207,797	(209,845)
Deposits	(138)	(608)
Increase (decrease) in operating liabilities		
Accounts payable	7,910	21,406
Accrued compensation	2,680	4,779
Deferred revenue	(1,350)	1,350
Grants restricted for long term use	(60,000)	
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>(484,098)</u>	<u>385,143</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets, net of disposals	<u>2</u>	<u>(10,469)</u>
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	<u>2</u>	<u>(10,469)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Short term loan obtained	<u>50,000</u>	
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	<u>50,000</u>	
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<u>(434,096)</u>	<u>374,674</u>
CASH AND CASH EQUIVALENTS, beginning of the year	<u>507,007</u>	<u>132,333</u>
CASH AND CASH EQUIVALENTS, end of the year	<u>\$72,911</u>	<u>\$507,007</u>
Supplemental Informaton:		
Payments for interest expense	\$413	\$0

The accompanying notes are an integral part of this financial statement.

ZERO1: The Art & Technology Network
Notes to Financial Statements
June 30, 2011

NOTE A - SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

ZERO1: The Art & Technology Network (ZERO1) is where art meets technology to shape the future. As a 21st century arts nonprofit, ZERO1 works with some of the world's most fertile and creative minds from the fields of art, science, design, architecture, and technology to produce the ZERO1 Biennial, an international showcase of work at the nexus of art and technology. ZERO1 is also the force behind the ZERO1 Garage, where principles of artistic creativity are applied to real world innovation challenges. Part incubator, part research lab, part think tank, the ZERO1 Garage forms strategies for research, development, and creativity.

Programs

The ZERO1 Biennial, centered in San Jose and distributed throughout Silicon Valley and the greater Bay Area, is North America's most significant showcase of work at the nexus of art and technology. Through curated exhibitions, public art installations, performances, and speaker events the ZERO1 Biennial presents work by a global community of innovative artists who are reshaping contemporary culture. Established in 2006, the ZERO1 Biennial has presented the work of over 500 artists from 50+ countries; commissioned 80 original works of art (making ZERO1 one of the largest commissioning bodies in the United States); attracted over 100,000 visitors from around the world, and contributed \$20 million in economic revenue to the region. The upcoming ZERO1 Biennial will take place in 2012.

The ZERO1 Garage represents the next step in the organization's evolution and is envisioned as a platform for creative risk-takers from the arts and culture, business, science and academic sectors to interact, engage, and spur innovative change. Through the lens of art and technology, the ZERO1 Garage will inform strategies for research, development, and creativity by provoking challenges that address the complex world in which we live.

Significant Accounting Policies

Financial Statement Presentation

The Organization prepares its financial statements on the accrual basis of accounting in accordance with Accounting Standards for Not-for-profit Organizations. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Temporary restricted net assets include those assets, which are subject to a donor restriction and for which the applicable restriction was not met at the end of the current reporting period. Permanently restricted net assets include those assets, which are subject to a non-expiring donor restriction, such as an endowment. The Organization currently does not have any permanently restricted net assets.

Income Taxes

The Organization is not classified as a private foundation and is exempt from federal and state income taxes under section 501(c)3 of the Internal Revenue Code and Section 23701(d) of the California Code. The Organization is considered a publicly supported organization. The Financial Accounting Standards Boards (FASB) interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, subsequently included in the FASB codification as ASC 740 prescribes a recognition threshold and a measurement attribute for financial statement recognition of tax positions taken or expected to be taken on a tax return. Management has evaluated its uncertain tax positions and related income tax contingencies and does not believe any material uncertain tax positions exist.

Cash and Cash Equivalents

For purposes of the statement of cash flows the Organization considers cash and cash equivalents to include all cash accounts held in banks and other financial institutions.

Zero1: The Art & Technology Network
Notes to Financial Statements
June 30, 2011

Estimates

The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

The Organization accounts for contributions received and contributions made in accordance with Accounting Standards for Not-for-profit Organizations. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and, or nature of any donor restrictions. Restricted contributions reported as an increase in temporarily or permanently restricted net assets are reclassified to unrestricted net assets when donor requirements are met.

Contributions In-Kind

In-kind donations are recorded at their estimated fair market value on the day of donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at their estimated fair market value at the time the services are rendered.

Property, Equipment and Depreciation

Property and equipment is recorded at cost when purchased or at estimated fair market value when donated. It is the Organization's policy to capitalize items that have a life greater than two years and a cost of at least \$500. Depreciation is computed using the straight-line method over the assets estimated useful life, which ranges from five to ten years. Depreciation is charged to the activity benefiting from the use of the facilities or equipment.

Revenue Recognition

The Organization recognizes revenue on the accrual basis of accounting. Program fees are recognized as revenue in the period in which the service is provided. Grants and awards are recognized as revenue in the period in which they are awarded. Restricted grants and awards are recorded as an increase in restricted revenue and are reclassified to unrestricted revenue as conditions are fulfilled. The Organization's primary revenue sources are grants and awards from local governments, foundations and corporations and donations from individuals and corporations.

Allowance for Doubtful Accounts

The Organization does not maintain an allowance on grants and awards receivable as reimbursements from these funding sources are likely to be received. Balances still outstanding after management has used reasonable collection efforts are written off to bad debts. For the year ended June 30, 2011 a valuation allowance was not considered necessary.

The Organization maintains a discount on all long term receivables equal to the average US Treasury market rate for the current year and adding a one percent factor for credit and valuation risk, and a one percent factor for receivables due out beyond two years. For the year ended June 30, 2011 a discount on long term receivables was determined to be trivial and was not recognized in the financial statements.

Indirect Expense Allocations

The costs of operating the Organization's program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, salaries and related expenses have been allocated among the programs and supporting services benefited based on employee work assignments, as estimated by management. Shared expenses (such as occupancy, telephone, depreciation, etc) are allocated to program and supporting services based square footage of the space in relation to the total square footage of the facility.

Zero1: The Art & Technology Network
Notes to Financial Statements
June 30, 2011

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2010 from which the summarized information was derived. In addition, certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

NOTE B – GRANTS RECEIVABLE

At June 30, 2011 grants receivable consist of current, unrestricted \$325,746, and current, restricted \$210,000, and long term, due within two years, restricted \$60,000.

NOTE C – PROPERTY AND EQUIPMENT

At June 30, 2011 property and equipment and related accumulated depreciation is as follows:

Computer Equipment	\$1,511
Software	\$15,653
Festival Equipment	\$50,308
Furniture	\$20,196
Website Design	\$18,989
Leasehold Improvements	<u>\$6,922</u>
Subtotal	<u>\$113,579</u>
Accumulated Depreciation	<u>(\$67,191)</u>
Net Book Value	<u><u>\$46,388</u></u>

Depreciation expense for the year ending June 30, 2011 is \$18,840.

NOTE D – SHORT TERM LOAN

The Organization received a \$50,000 loan from the Northern California Grantmakers, simple interest accrues at 2.25%, is secured by future grant funding from the Hewlett Packard Foundation, and is due on November 30, 2011.

NOTE E - CONTINGENT LIABILITIES

Conditions contained within the various contracts awarded to the Organization are subject to the funding agencies' criteria and regulations under which expenditures may be charged against and are subject to audit under such regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the grants may not comply with the established criteria governing them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to reductions of future funding in the amount of such costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period.

NOTE F - OPERATING LEASES

The Organization leases office space in San Jose, under a non-cancelable agreement that expires in December 2012. Future minimum payments due are \$30,012 for the year ending June 30, 2012 and \$21,438 for the year ending June 30, 2012.

Zero1: The Art & Technology Network
Notes to Financial Statements
June 30, 2011

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2011 the Organization's temporarily restricted net asset activity consisted of the following:

	<u>Beginning</u>	<u>Additions</u>	<u>Released</u>	<u>Ending</u>
Artists	\$130,900		\$130,900	\$0
Biennial	\$89,853	\$50,000	\$139,853	\$0
Absolute Zero	\$50,000		\$50,000	\$0
Partner Exhibitions	\$29,502		\$29,502	\$0
City Hall Art Project	\$5,000		\$5,000	\$0
Radio Nonchalance	\$4,050		\$4,050	\$0
Youth Leadership		\$25,000		\$25,000
Time Restricted	<u>\$349,140</u>	<u>\$330,000</u>	<u>\$409,140</u>	<u>\$270,000</u>
Total	<u>\$658,445</u>	<u>\$405,000</u>	<u>\$768,445</u>	<u>\$295,000</u>

NOTE H –SPECIAL EVENTS

During the year ended June 30, 2011 the Organization participated in one special event, Still Life Banquet, proceeds are reported as follows:

Donations	\$1,018
Auction / Ticket Sales	\$57,512
Less: Direct Expense of Auction	<u>(\$38,293)</u>
Total Gross Proceeds	<u>\$20,237</u>

NOTE I - CONTRIBUTIONS IN-KIND

For the year ended June 30, 2011 the Organization recognized the following in-kind donations:

Marketing Services	\$42,000
Donor Cultivation Supplies	\$1,440
Festival Materials	\$2,600
Design Services	<u>\$2,650</u>
Total	<u>\$48,690</u>

NOTE J – FINANCIAL INSTRUMENTS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of grants awarded and grants receivable. At June 30, 2011 concentrations in grants receivable are as follows: Approximately 55% of the grants receivable are from the Knight Foundation. For the year ended June 30, 2011 concentrations in grants awarded are as follows: 33% of the grants awarded are from Knight Foundation and 35% are from the Hewlett Foundation.

The ability of certain of the Organization's grants and awards to continue to provide amounts comparable with prior years may be dependent upon current and future economic conditions and budget constraints. While the Board of Directors believes the Organization has the resources to continue current and future programs, its ability to do so, and the extent to which it does continue, may be dependent on the above factors.

Zero1: The Art & Technology Network
Notes to Financial Statements
June 30, 2011

NOTE K – SUBSEQUENT EVENTS

Management of the Organization has reviewed the results of operations for the period of time from its year end, June 30, 2011, through November 2, 2011, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure, except as follows:

On July 18, 2011 management signed an unsecured promissory note of \$100,000 payable to Charmaine and Dan Warmenhoven at 6% simple interest, and is due within one year.

On October 27, 2011 management signed a ten year non-cancelable facility lease agreement for 10,000 square feet of space located in downtown San Jose, beginning November 1, 2011. Management plans to build out the facility and move sometime in April 2012. No rental payments are required for the first nine months under this lease agreement. Annual rental increases are based on annual increases in the Consumer Price Index for the San Francisco, Oakland, San Jose area, adjusted in August of each year, subject to the current rental payment never being less than the prior month's rental payment.

Future minimum payments due under this agreement, assuming the Consumer Price Index increases each year on average at a rate of 2%, are as follows:

Year ending, June 30, 2012	\$0
Year ending, June 30, 2013	\$182,161
Year ending, June 30, 2014	\$202,817
Year ending, June 30, 2015	\$206,873
Year ending, June 30, 2016	\$211,011
Thereafter, thru October 31, 2021	\$1,198,240

ZERO1: The Art Technology Network
Actual Activities and Budget Comparison
For the Year Ended June 30, 2011

	Actual 2011	Actual 2010	Bduget 2011	Combined Total
SUPPORT AND REVENUE				
Contributons	\$69,143	\$44,450	\$76,724	\$190,317
Grants & awards	987,600	1,333,850	1,458,071	3,779,521
In-kind donations	48,690			48,690
Special events, net	20,237		266,095	286,332
Interest income	16			16
Art exhibit fees	3,000	30,000		33,000
Miscellaneous income		5,619		5,619
Total Support and Revenue	<u>1,128,686</u>	<u>1,413,919</u>	<u>1,800,890</u>	<u>4,343,495</u>
EXPENSES				
Program services				
Art activities	1,328,327	652,666	1,003,802	2,984,795
Supporting services				
Management and general	171,859	145,220	383,532	700,611
Fund-raising	<u>123,106</u>	<u>173,347</u>	<u>207,711</u>	<u>504,164</u>
Total Expenses	<u>1,623,292</u>	<u>971,233</u>	<u>1,595,045</u>	<u>4,189,570</u>
INCREASE / (DECREASE) IN NET ASSETS	<u><u>(\$494,606)</u></u>	<u><u>\$442,686</u></u>	<u><u>\$205,845</u></u>	<u><u>\$153,925</u></u>

ZERO1: The Art & Technology Network
Notes to Schedule of Activities and Budget Comparison
June 30, 2011

The ZERO1: The Art & Technology Network Schedule of Activities and Budget Comparison can be interpreted by understanding of the role and function of the Organization as the directorial agency for the San Jose Biennial and the two year planning / implementation cycle.

The Organization coordinates with multiple cultural organizations regionally, nationally and internationally (21 organizations for the 2010 Biennial) to put on the San Jose Biennial. The planning process is layered and complex involving partnerships that together impact the final curatorial, marketing and development functions of the Organization. Unlike a traditional visual arts media presentation, of other arts organizations, the function of San Jose Biennial is a catalyst of collaborations that requires more resources operationally to support the functions of this event.

The San Jose Biennial requires that the off-year expenditures favor general operations whereby salaries are focused on strategic planning, development and marketing, while the on-year expenditures evidence a substantial increase in artistic commissions, curatorial, marketing and production costs. The curatorial model, thematic, marketing strategy and major exhibition platforms must be clarified a minimum of one year out from the San Jose Biennial in order to secure artists, sponsors and funding. Because of the cyclical nature of strategic planning and implementation of the San Jose Biennial there is a pattern of expenses that reflects the heavier off-year operations and on-year program activities. Further complicating the San Jose Biennial cycle is the influence of the September event date. This places the event three months into the fiscal year. Commissioning the necessary production contracts, staffing and marketing services begin in the fiscal year prior to the year the event takes place. This pattern requires advanced planning of securing sponsorships and funding. As such, support and revenue increases substantially during the on-year of the San Jose Biennial. The Organization fully expects that the next several cycles of the San Jose Biennial will continue to evidence these trends.