

ZERO1: THE ART & TECHNOLOGY NETWORK

Audited Financial Statements

JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of ZERO1: The Art & Technology Network (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ZERO1: The Art & Technology Network's June 30, 2013 financial statements and expressed an unmodified audit opinion on those financial statements in our report dated January 8, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been obtained.



Pleasanton, California  
February 4, 2015

ZERO1: The Art Technology Network  
Statement of Financial Position  
At June 30, 2014 with Comparative Totals at June 30, 2013

	Unrestricted	Temporarily Restricted	Total 2014	Summarized 2013
<b>ASSETS</b>				
Cash	\$104,329	\$120,850	\$225,179	\$2,129,826
Receivables	13,859	325,000	338,859	72,305
Inventory				23,907
Prepaid expenses	2,164		2,164	169,414
<b>TOTAL CURRENT ASSETS</b>	<b>120,352</b>	<b>445,850</b>	<b>566,202</b>	<b>2,395,452</b>
<b>OTHER ASSETS</b>				
Receivables, net		192,000	192,000	
Deposits	17,052		17,052	17,901
Property and equipment, net	469,548		469,548	533,824
<b>TOTAL ASSETS</b>	<b>\$606,952</b>	<b>\$637,850</b>	<b>\$1,244,802</b>	<b>\$2,947,177</b>
<b>LIABILITIES</b>				
Accounts payable	\$23,977		\$23,977	\$411,501
Accrued compensation	7,537		7,537	18,757
Accrued expenses	6,261		6,261	386,186
Deferred rent	172,633		172,633	174,292
Deferred revenue	3,600		3,600	
Loans	85,000		85,000	
<b>TOTAL CURRENT LIABILITIES</b>	<b>299,008</b>		<b>299,008</b>	<b>990,736</b>
<b>NET ASSETS</b>				
Unrestricted	307,944		307,944	910,780
Temporarily restricted		\$637,850	637,850	1,045,661
<b>TOTAL NET ASSETS</b>	<b>307,944</b>	<b>637,850</b>	<b>945,794</b>	<b>1,956,441</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$606,952</b>	<b>\$637,850</b>	<b>\$1,244,802</b>	<b>\$2,947,177</b>

See Independent Accountant's Audit Report and Notes to financial statements.

ZERO1: The Art Technology Network  
Statement of Activities  
For the Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total 2014	Summarized 2013
<b>SUPPORT AND REVENUE</b>				
Support				
Contributions	\$183,271	\$49,000	\$232,271	\$7,628,021
Memberships	125,000	370,000	495,000	
Grants & awards	148,287	512,000	660,287	813,205
In-kind donations	1,079		1,079	505,067
Revenue				
Interest income	1,918		1,918	11,343
Art exhibit fees	516		516	18,434
Space rental	10,528		10,528	8,002
Merchandise and event sales				87,099
Sale of festival supplies	4,592		4,592	
Miscellaneous income	2,758		2,758	613
Net assets released from temporary restrictions				
Expiration of purpose & time restrictions	338,345	(338,345)		
Total Support and Revenue	<u>816,294</u>	<u>592,655</u>	<u>1,408,949</u>	<u>9,071,784</u>
<b>EXPENSES</b>				
Program services				
Art activities	668,649		668,649	1,098,245
Fiscal sponsorships				6,156,002
Supporting services				
Management and general	169,758		169,758	196,655
Fund-raising	120,982		120,982	325,249
Total Expenses	<u>959,389</u>		<u>959,389</u>	<u>7,776,151</u>
INCREASE / (DECREASE) IN NET ASSETS	(143,095)	592,655	449,560	1,295,633
<b>NET ASSETS AT BEGINNING OF YEAR</b>				
As previously reported	910,780	1,045,661	1,956,441	660,808
Close out and transfer of fiscal sponsorships	(459,741)	(1,000,466)	(1,460,207)	
NET ASSETS AT BEGINNING OF YEAR RESTATED	<u>451,039</u>	<u>45,195</u>	<u>496,234</u>	<u>660,808</u>
NET ASSETS AT END OF YEAR	<u>\$307,944</u>	<u>\$637,850</u>	<u>\$945,794</u>	<u>\$1,956,441</u>

See Independent Accountant's Audit Report and Notes to financial statements.

ZERO1: The Art Technology Network  
Statement of Functional Expenses  
For the Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	Program Services	Supporting Services			Total	Summarized
	Art Activities	Mgmt & General	Fund-Raising	Total	2014	2013
Compensation	\$187,262	\$43,695	\$81,147	\$124,842	\$312,104	\$354,279
Payroll taxes	18,218	4,251	7,895	12,146	30,364	27,041
Employee benefits	7,014	1,636	3,039	4,675	11,689	13,285
Subtotal compensation	212,494	49,582	92,081	141,663	354,157	394,605
Artist fees						593,618
Catering receptions / events			5,256	5,256	5,256	164,185
Conferences & meetings		699		699	699	6,352
Cost of merchandise sold						15,508
Dues, fees, licenses etc.	1,718	6,323		6,323	8,041	38,066
Equipment lease / purchase	190				190	28,525
Honorariums						70,500
Insurance	6,361	1,484	2,756	4,240	10,601	89,061
Interest expense		1,328		1,328	1,328	2,798
Marketing costs	11,278		2,123	2,123	13,401	190,342
Occupancy & storage	169,070	44,658	10,791	55,449	224,519	252,253
Outside services	187,183	1,898	2,077	3,975	191,158	5,236,392
Postage	398		1,279	1,279	1,677	15,963
Printing			569	569	569	23,946
Professional services		43,980		43,980	43,980	379,100
Supplies	18,314	3,407		3,407	21,721	197,212
Telephone & internet	7,894	2,105	526	2,631	10,525	9,215
Travel	891	198		198	1,089	3,416
Total before depreciation	615,791	155,662	117,458	273,120	888,911	7,711,057
Depreciation	52,858	14,096	3,524	17,620	70,478	65,094
Total Expenses	\$668,649	\$169,758	\$120,982	\$290,740	\$959,389	\$7,776,151

See Independent Accountant's Audit Report and Notes to financial statements.

ZERO1: The Art Technology Network  
Statement of Cash Flows  
For the Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	<u>Total 2014</u>	<u>Summarized 2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$449,560	\$1,295,633
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Transfer of fiscal sponsorships	(1,460,207)	
Depreciation expense	70,478	65,094
(Increase) decrease in operating assets		
Receivables	(458,554)	118,213
Merchandise inventory	23,907	(23,907)
Prepaid expenses	167,250	33,040
Deposits	849	1,151
Increase (decrease) in operating liabilities		
Accounts payable	(387,524)	293,531
Accrued compensation	(11,220)	(5,173)
Accrued expenses	(379,925)	164,348
Deferred rent	(1,659)	40,884
Deferred revenue	3,600	
<b>NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES</b>	<u>(1,983,445)</u>	<u>1,982,814</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Grants & memberships restricted for long term use	(195,000)	
Purchase of capital assets, net of disposals	(6,202)	(291,131)
<b>NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES</b>	<u>(201,202)</u>	<u>(291,131)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Grants & memberships restricted for long term use	195,000	
Short term loan obtained	85,000	
Payments on short term obligations		(205,750)
<b>NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES</b>	<u>280,000</u>	<u>(205,750)</u>
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(1,904,647)</u>	<u>1,485,933</u>
CASH AND CASH EQUIVALENTS, beginning of the year	<u>2,129,826</u>	<u>643,893</u>
CASH AND CASH EQUIVALENTS, end of the year	<u>\$225,179</u>	<u>\$2,129,826</u>
Supplemental Information:		
Payments for interest expense	\$1,328	\$6,573

See Independent Accountant's Audit Report and Notes to financial statements.

ZERO1: The Art & Technology Network  
Notes to Financial Statements

NOTE A – SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

ZERO1: The Art & Technology Network (Organization) is a California nonprofit public benefit corporation formed in 2000 operating in San Jose, California. ZERO1: The Art & Technology Network 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 an international showcase of work at the nexus of art and technology.

NOTE B – PROGRAMS

ZERO1's core programs include; historically, the ZERO1 Biennial; and presently, the newly launched ZERO1 Garage.

Working with some of the most fertile and creative minds from the arts, science, technology, design and architecture, ZERO1 produces the ZERO1 Biennial, an international showcase of work at the nexus of art and technology. Through public art installations, exhibitions, performances and symposiums; the ZERO1 Biennial features cutting edge and provocative works from a both a regional and global community of artists to this region.

ZERO1 has launched the ZERO1 Garage, the next phase in the organization's evolution. The ZERO1 Garage is where the principles of artistic creativity applied to real world innovate challenges; developed and supported in partnership with tech companies, cultural organizations and academic research centers. Part research lab, part exhibitions center, the ZERO1 Garage is both a physical space and a conceptual platform, envisioned as a launch pad for risk-takers from the arts and culture, corporate, science, technology, and academic sectors to interact, engage, and spur innovative change.

NOTE C – SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting standards for non-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.

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.

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 a publicly supported organization. The Financial Accounting Standards Board 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 believes no material uncertain tax positions exist.

ZERO1: The Art & Technology Network  
Notes to Financial Statements

### 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 financial institutions, with an initial maturity of three months or less.

### Contributions

The Organization accounts for contributions received and contributions made in accordance with accounting standards for non-profit organizations. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence of and, or nature of any donor restrictions. Restricted contributions are 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 contributions are recognized as follows: Donated supplies 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. In addition, the Organization receives donated services that do not require specific expertise but are nonetheless central to the Organization's operations and do not meet the requirements for recognition in the financial statements per generally accepted accounting principles.

### Allowance for Doubtful Accounts and Discount on Long Term Receivables

The Organization does not maintain an allowance for doubtful accounts on grants, memberships and donations receivable as these funding sources are likely to be received. The Organization does maintain a discount on long term receivables equal to the Treasury Nominal Curve Rate, which was 2.47% at June 30, 2014 and adding one percent for credit risk and one half percent for valuation risk.

### 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 \$500 or more. Depreciation is computed using the straight-line method over the asset's 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.

### Accrued Expenses

Accrued expenses represent amounts due to the Employment Development Department for past due employer payroll taxes and related fees.

### Deferred Rent

Deferred rent represents the difference between the average rental payments, accumulated over the life of the lease, and actual rental payments paid. Reporting deferred rent on long term leases allows recognition of rent expense on a straight line basis.

### Revenue Recognition

The Organization recognizes revenue on the accrual basis of accounting. Grants, memberships and donations are recognized as revenue in the period in which they are awarded in writing. Restricted grants, memberships and donations are recorded as an increase in restricted revenue and are reclassified to unrestricted revenue as restrictions are met. Art exhibit fees and space rental fees are recognized as revenue in the period in which the related service is provided. The Organization's primary revenue sources are grants from local governments, foundations and corporations and memberships / contributions from individuals and corporations.

ZERO1: The Art & Technology Network  
Notes to Financial Statements

Indirect Expense Allocations

The costs of operating the Organization's program and supporting services have been summarized 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 used in each functional area.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses a fair value hierarchy which is categorized into three levels as follows:

Level 1 – Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these balances does not entail a significant degree of judgment. Level 2 – Valuations are based on quoted prices for similar assets or liabilities in active markets from those willing to trade that are not active or for which other inputs can be corroborated by market data. Level 3 – Valuations are based on inputs that are unobservable and significant to the overall fair value measurement and represent the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

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, 2013 from which the summarized information was derived.

Close Out and Transfer of Fiscal Sponsorship

During the year ended June 30, 2014 the Organization's fiscal sponsorship of The Bay Lights group terminated upon notification of the group receiving their 501(c)3 status from the Internal Revenue Service. The Internal Revenue Service granted 501c3 status retroactively and as such the Organization transferred all cash, receivables, liabilities and net assets to the Bay Lights group effective July 1, 2013. The net effect of this transfer is a decrease in temporarily restricted net assets of \$1,460,466 and a decrease in unrestricted net assets of \$459,741. Comparisons of current year actuals to prior year actuals will need to consider this transfer.

NOTE D – RECEIVABLES

Receivables are as follows:

	June 30, 2014	June 30, 2013
Current	\$338,859	\$72,305
Long Term (due within two years)	\$200,000	
Discount on Long Term Receivables	(\$8,000)	
Total	\$530,859	\$72,305

ZERO1: The Art & Technology Network  
Notes to Financial Statements

NOTE E – PROPERTY AND EQUIPMENT

Property, equipment and related accumulated depreciation is as follows:

	June 30, 2014	June 30, 2013
Equipment and Furniture	\$143,700	\$148,522
Software and Website Design	\$34,642	\$34,642
Leasehold Improvements	<u>\$497,821</u>	<u>\$491,619</u>
Subtotal	<u>\$676,163</u>	<u>\$674,783</u>
Accumulated Depreciation	<u>(\$206,615)</u>	<u>(\$140,959)</u>
Net Book Value	<u><u>\$469,548</u></u>	<u><u>\$533,824</u></u>

Depreciation expense is \$70,478 for the year ended June 30, 2014 and \$65,094 for the year ended June 30, 2013.

NOTE F – OPERATING LEASES

Effective November 1, 2011 management entered into a ten year non-cancelable facility lease agreement for space located in Downtown San Jose. No rental payments were required the first nine months to allow for facility renovations. Management recognizes rent expense on a straight line basis and defers the difference between actual payments made and accumulated payments accrued as deferred rent. For the year ended June 30, 2014 rent expense is \$210,239 and deferred rent is \$172,633. For the year ended June 30, 2013 rent expense is \$208,580 and deferred rent is \$174,292.

Annual rental increases are based on increases in the Consumer Price Index for the San Francisco, San Jose and Oakland area, as published each August, and are subject to the rental payment never being less than the prior month's payment made. Future principal payments due are as follows:

Year ending, June 30, 2015	\$219,452
Year ending, June 30, 2016	\$223,841
Year ending, June 30, 2017	\$228,317
Year ending, June 30, 2018	\$232,884
Year ending, June 30, 2019	\$237,541
Thereafter, thru October 31, 2021	\$572,352

NOTE G – LOANS

During the year ending June 30, 2014 management obtained two unsecured loans, totaling \$85,000, from board members; as follows:

Lender	Interest Rate	Due Date	Amount
Harry & Carol Saal	0%	4/2/2015	\$25,000
Andrea Cunningham	0%	5/15/2015	<u>\$60,000</u>
			<u><u>\$85,000</u></u>

NOTE H – CONTINGENT LIABILITIES

Conditions contained within the various grants awarded to the Organization are subject to the funding agency's criteria and can be subject to audit. 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 costs questioned or be subject to reductions of future funding. Management does not anticipate any questioned costs for the grants administered during the period.

ZERO1: The Art & Technology Network  
Notes to Financial Statements

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

For the year ended June 30, 2014 the Organization's temporarily restricted net asset activity is as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Released</u>	<u>Ending</u>
Exhibits	\$2,000	\$80,000	(\$82,000)	\$0
Fellowship	\$43,195		(\$43,195)	\$0
Performances		\$40,000	(\$19,150)	\$20,850
Presentations		\$15,000	(\$15,000)	\$0
Travel		\$4,000	(\$4,000)	\$0
Time Restricted		\$792,000	(\$175,000)	\$617,000
Total	<u>\$45,195</u>	<u>\$931,000</u>	<u>(\$338,345)</u>	<u>\$637,850</u>

NOTE J – CONTRIBUTIONS IN-KIND

In-kind donations are as follows:

	June 30, 2014	June 30, 2013
Advertising		\$2,840
Catering		\$552
Equipment Lease		\$2,436
Rebranding Services		\$20,000
Telephone System		\$43,641
Professional services		\$425,750
Supplies / Catering	\$1,079	\$9,848
Total	<u>\$1,079</u>	<u>\$505,067</u>

NOTE K – FINANCIAL INSTRUMENTS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of concentrations in grants received. At June 30, 2014 approximately 70% of the amounts receivable are due from Avaya Corporation. For the year ended June 30, 2014 approximately 36% of the Organizations donations, grants and memberships is from Avaya Corporation. The ability of the Organization's donations, grants and memberships 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.

NOTE L – RELATED PARTY TRANSACTIONS

For the year ended June 30, 2014 the Organization entered into the following related party transactions: A board member is the founder of Lava Mae, which is fiscally sponsored by the Organization. Another Board Member is the CMO of Avaya Corporation, which pledged a \$500,000 membership to the Organization. And lastly, two board members provided short term loans, as mentioned in Note G.

NOTE M – SUBSEQUENT EVENTS

Management of the Organization has reviewed the results of operations for the period of time from its year end, June 30, 2014, through February 4, 2015, 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.