

ZERO1: THE ART & TECHNOLOGY NETWORK

Audited Financial Statements

JUNE 30, 2015

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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, 2015, 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 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 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, 2015, 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, 2014 financial statements and expressed an unmodified audit opinion on those financial statements in our report dated February 4, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been obtained.

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Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2016 on our consideration of the ZERO1: The Art & Technology Network's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ZERO1: The Art & Technology Network's internal control over financial reporting and compliance.



Pleasanton, California
April 1, 2016

ZERO1: The Art Technology Network
Statement of Financial Position
At June 30, 2015 with Comparative Totals at June 30, 2014

	Unrestricted	Temporarily Restricted	Total 2015	Summarized 2014
ASSETS				
Cash	\$39,448	\$200,000	\$239,448	\$225,179
Receivables	11,200	125,000	136,200	338,859
Prepaid expenses	1,606		1,606	2,164
TOTAL CURRENT ASSETS	52,254	325,000	377,254	566,202
OTHER ASSETS				
Receivables long term, net				192,000
Deposits				17,052
Property and equipment, net	3,450		3,450	469,548
TOTAL ASSETS	\$55,704	\$325,000	\$380,704	\$1,244,802
LIABILITIES				
Accounts payable	\$17,076		\$17,076	\$12,023
Accrued compensation	18,452		18,452	7,537
Accrued expenses	24,056		24,056	18,215
Deferred rent				172,633
Deferred revenue				3,600
Short term loan	80,000		80,000	85,000
TOTAL CURRENT LIABILITIES	139,584		139,584	299,008
NET ASSETS				
Unrestricted	(83,880)		(83,880)	900,599
Temporarily restricted		\$325,000	325,000	45,195
TOTAL NET ASSETS	(83,880)	325,000	241,120	945,794
TOTAL LIABILITIES AND NET ASSETS	\$55,704	\$325,000	\$380,704	\$1,244,802

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, 2015 with Comparative Totals for the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2015</u>	<u>Summarized 2014</u>
SUPPORT AND REVENUE				
Support				
Contributions	\$27,548	\$150,000	\$177,548	\$232,271
Memberships	5,000	5,000	10,000	\$495,000
Grants & awards	304,337	103,000	407,337	660,287
In-kind donations				1,079
Revenue				
Interest income	389		389	1,918
Art exhibit fees	350		350	516
Space rental	36,230		36,230	10,528
Gain / (loss) on asset disposal	(390,707)		(390,707)	4,592
Miscellaneous income	2,800		2,800	2,758
Net assets released from temporary restrictions				
Expiration of purpose & time restrictions	570,850	(570,850)		
Total Support and Revenue	<u>556,797</u>	<u>(312,850)</u>	<u>243,947</u>	<u>1,408,949</u>
EXPENSES				
Program services				
Art activities	466,827		466,827	668,649
Supporting services				
Management and general	130,446		130,446	169,758
Fund-raising	226,348		226,348	120,982
Total Expenses	<u>823,621</u>		<u>823,621</u>	<u>959,389</u>
INCREASE / (DECREASE) IN NET ASSETS	(266,824)	(312,850)	(579,674)	449,560
NET ASSETS AT BEGINNING OF YEAR				
As previously reported	307,944	637,850	945,794	496,234
Prior period adjustment	(125,000)		(125,000)	
NET ASSETS AT BEGINNING OF YEAR RESTATED	<u>182,944</u>	<u>637,850</u>	<u>820,794</u>	<u>496,234</u>
NET ASSETS AT END OF YEAR	<u>(\$83,880)</u>	<u>\$325,000</u>	<u>\$241,120</u>	<u>\$945,794</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, 2015 with Comparative Totals for the Year Ended June 30, 2014

	Program Services	Supporting Services			Total	Summarized
	Art Activities	Mgmt & General	Fund- Raising	Total	2015	2014
Compensation	\$155,848	\$40,205	\$181,273	\$221,478	\$377,326	\$312,104
Payroll taxes	9,197	4,059	14,191	18,250	27,447	30,364
Employee benefits	2,506	2,696	1,507	4,203	6,709	11,689
Subtotal compensation	167,551	46,960	196,971	243,931	411,482	354,157
Catering receptions / events						5,256
Conferences & meetings		358	182	540	540	699
Dues, fees, licenses etc.		5,269		5,269	5,269	8,041
Equipment lease / purchase	1,489				1,489	190
Insurance	7,986	2,130	532	2,662	10,648	10,601
Interest expense		1,468		1,468	1,468	1,328
Marketing costs						13,401
Occupancy	42,726	11,394	2,848	14,242	56,968	224,519
Outside services	143,088	1,521	19,540	21,061	164,149	191,158
Postage	2,694	589		589	3,283	1,677
Printing			827	827	827	569
Professional services		42,900		42,900	42,900	43,980
Supplies	2,753	939	1,218	2,157	4,910	21,721
Telephone & internet	8,568	2,285	571	2,856	11,424	10,525
Travel	35,093				35,093	1,089
Total before depreciation	411,948	115,813	222,689	338,502	750,450	888,911
Depreciation	54,879	14,633	3,659	18,292	73,171	70,478
Total Expenses	<u>\$466,827</u>	<u>\$130,446</u>	<u>\$226,348</u>	<u>\$356,794</u>	<u>\$823,621</u>	<u>\$959,389</u>

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, 2015 with Comparative Totals for the Year Ended June 30, 2014

	Total 2015	Summarized 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	(\$579,674)	\$449,560
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Transfer of fiscal sponsorships		(1,460,207)
Prior period adjustment	(125,000)	
Depreciation expense	73,171	70,478
(Increase) decrease in operating assets		
Receivables	394,659	(458,554)
Merchandise inventory		23,907
Prepaid expenses	558	167,250
Deposits	17,052	849
Increase (decrease) in operating liabilities		
Accounts payable	5,053	(387,524)
Accrued compensation	10,915	(11,220)
Accrued expenses	5,841	(379,925)
Deferred rent	(172,633)	(1,659)
Deferred revenue	(3,600)	3,600
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	(373,658)	(1,983,445)
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposals of capital assets	392,927	
Purchases of capital assets		(6,202)
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	392,927	(201,202)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short term loan obtained	20,000	85,000
Payments on short term obligations	(25,000)	
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	(5,000)	280,000
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	14,269	(1,904,647)
CASH AND CASH EQUIVALENTS, beginning of the year	225,179	2,129,826
CASH AND CASH EQUIVALENTS, end of the year	\$239,448	\$225,179
Supplemental Information:		
Payments for interest expense	\$1,468	\$1,328

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 the ZERO1 Garage. Presently, ZERO1's most significant program work is represented by its US State Department and the Bureau of Educational & Cultural Affairs-American Arts Incubator.

Working with some of the most fertile and creative minds from the arts, science, technology, design and architecture, ZERO1 had historically produced 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 featured cutting edge and provocative works from both a regional and global community of artists.

The ZERO1 Garage represented the next phase in the organization's major program evolution. Within the ZERO1 Garage environment, artistic works that reflected the principles of artistic creativity applied to real world innovate challenges, some of the world's and Region's most creative minds were able to explore, create, and exhibit those works. The Garage was developed and supported in partnership with tech companies, cultural organizations, and academic research centers. Part research lab, part exhibitions center, the ZERO1 Garage was 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.

The American Arts Incubator is an international arts exchange program developed by ZERO1 in partnership with the US State Department, Bureau of Educational and Cultural Affairs. The program sends American artists overseas to lead innovative workshops that help influence public policy and further international social innovation in positive and productive ways.

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.

ZERO1: The Art & Technology Network
Notes to Financial Statements

NOTE C – SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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. The Organization's federal and state informational returns for the years ending June 30, 2011 through June 30, 2014 are subject to examination by regulatory agencies; generally for three years after they have been filed.

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

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.

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.

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

NOTE C – SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued Expenses

Accrued expenses represent balances due on revolving credit cards. At June 30, 2015 interest charged on these balances is 14.25%.

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 utilized 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 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 open 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, 2014 from which the summarized information was derived.

NOTE D – RECEIVABLES

Receivables are as follows:

	June 30, 2015	June 30, 2014
Current	\$136,200	\$338,859
Long Term (due within two years)		\$200,000
Discount on Long Term Receivables		<u>(\$8,000)</u>
Total	<u>\$136,200</u>	<u>\$530,859</u>

For the year ending June 30, 2015 approximately 55% of the balance is due from the Hewlett Foundation and approximately 37% is due from the Warhol Foundation. For the year ending June 30, 2014 approximately 70% of the balance is due from Avaya. 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.

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, 2015	June 30, 2014
Equipment and Furniture	\$43,984	\$143,700
Software and Website Design	\$18,989	\$34,642
Leasehold Improvements		<u>\$497,821</u>
Subtotal	<u>\$62,973</u>	<u>\$676,163</u>
Accumulated Depreciation	<u>(\$59,521)</u>	<u>(\$206,615)</u>
Net Book Value	<u>\$3,452</u>	<u>\$469,548</u>

Depreciation expense is \$73,171 for the year ended June 30, 2015 and \$70,478 for the year ended June 30, 2014. See Note L Subsequent Events for further disclosure.

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 as deferred rent. For the year ended June 30, 2015 management negotiated a termination agreement with an effective move out date of July 2016. As such, deferred rent \$172,633 and security deposit \$17,052, were both reversed against rent expense in the current year. For the year ended June 30, 2015 rent expense is \$56,968 and for the year ended June 30, 2014 rent expense is \$224,519. See Note L Subsequent Events for further disclosure.

NOTE G – SHORT TERM UNSECURED LOAN

During the year ending June 30, 2015 management converted one short term loan, valued at \$25,000 into a donation and obtained another unsecured loan \$20,000, from a board member. No interest is due on the loan. The balance due at June 30, 2015 is \$80,000 and the balance due at June 30, 2014 is \$85,000. See footnote subsequent events for further disclosure.

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.

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

For the year ended June 30, 2015 the Organization's temporarily restricted net asset activity is as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Released</u>	<u>Ending</u>
Biennial		\$250,000		\$250,000
Performances	\$20,850		(\$20,850)	
Time Restricted	<u>\$617,000</u>	<u>\$8,000</u>	<u>(\$550,000)</u>	<u>\$75,000</u>
Total	<u>\$637,850</u>	<u>\$258,000</u>	<u>(\$570,850)</u>	<u>\$325,000</u>

ZERO1: The Art & Technology Network
Notes to Financial Statements

NOTE J – CONTRIBUTIONS IN-KIND

In-kind donations are as follows:

	June 30, 2015	June 30, 2014
Supplies / Catering		\$1,079
Total	\$0	\$1,079

NOTE K – RELATED PARTY TRANSACTIONS

For the year ended June 30, 2015 the Organization entered into the following related party transactions: A board member provided a short term loan as mentioned in Note G Short Term Unsecured Note.

NOTE L – PRIOR PERIOD ADJUSTMENT

After the year ending June 30, 2015 and prior to the date of this audit report management determined that their membership fees receivable would not be realized; as without a facility, management could not full fill its obligations for such memberships. As a result, a prior period adjustment was considered necessary in order to properly reflect membership fees receivable. The net effect of this adjustment is a decrease in membership fees receivable and a corresponding decrease in unrestricted net assets of \$125,000.

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, 2015, through April 1, 2016, 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:

As discussed in Note F Operating Leases management executed a facility lease termination agreement and vacated the premises effective July 31, 2015. This resulted in removal of the deferred rent liability, \$172,633 and the security deposit, \$17,052 as of June 30, 2015, both netted against rent expense.

In planning for the move out, management donated several fixed asset equipment items to other nonprofit organizations and abandoned the lease hold improvements. For the year ending June 30, 2015 the total disposed, related accumulated depreciation and the resulting net loss is as follows:

Fixed Assets Disposed	\$613,192
Accumulated Depreciation	(\$222,485)
Net Loss on Assets Disposed	\$390,707

After the year ending June 30, 2015 and prior to the date of this audit report the unsecured short term loan from the Organization's board member had been forgiven. This has not been recognized in the financial statements for the year ended June 30, 2015.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ZERO1: The Art & Technology Network, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the basic financial statements and have issued our report thereon dated April 1, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered ZERO1: The Art & Technology Network's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of ZERO1: The Art & Technology Network's internal control. Accordingly, we do not express an opinion on the effectiveness of ZERO1: The Art & Technology Network's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ZERO1: The Art & Technology Network's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ZERO1: The Art & Technology Network's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Pleasanton, CA
April 1, 2016