

**ZERO1: THE ART & TECHNOLOGY NETWORK
(A CALIFORNIA NONPROFIT ORGANIZATION)**

FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2017

ZERO1: THE ART & TECHNOLOGY NETWORK

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
ZERO1: THE ART & TECHNOLOGY NETWORK

We have audited the accompanying financial statements of ZERO1: The Art & Technology Network (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2017, 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 from 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 entity'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 entity'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, 2017, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2018, on our consideration of ZERO1: The Art & Technology Network 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 solely 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 the effectiveness of ZERO1: The Art & Technology Network's 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.

A handwritten signature in black ink, appearing to be "D. J. Smith", written in a cursive style.

Oakland, California
August 16, 2018

ZERO1: THE ART & TECHNOLOGY NETWORK

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017**

ASSETS	
Cash	\$ 130,752
Receivables	-
Prepaid expenses	<u>2,367</u>
 TOTAL CURRENT ASSETS	 <u>133,119</u>
 OTHER ASSETS	
Property and equipment, net	<u>569</u>
 TOTAL ASSETS	 \$ <u><u>133,688</u></u>
 LIABILITIES	
Accounts payable	\$ 9,815
Accrued compensation	6,663
Deferred revenue	<u>94,285</u>
 TOTAL CURRENT LIABILITIES	 <u>110,763</u>
 NET ASSETS	
Unrestricted	22,925
Temporarily restricted	<u>-</u>
 TOTAL NET ASSETS	 <u>22,925</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u><u>133,688</u></u>

See Accompanying Notes and Independent Auditor's Report.

ZERO1: THE ART & TECHNOLOGY NETWORK

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support			
Support			
Contributions	\$ 3,085	\$ -	\$ 3,085
Grants and awards	515,786	1,200	516,986
Other	-	-	-
Revenue			
Interest income	305	-	305
Other	5,162	-	5,162
Net assets released from restrictions	<u>3,988</u>	<u>(3,988)</u>	<u>-</u>
Total support and revenue	<u>528,326</u>	<u>(2,788)</u>	<u>525,538</u>
Expenses			
Program services			
Art activities	474,086	-	474,086
Supporting services			
Management and general	64,094	-	64,094
Fundraising	<u>32,837</u>	<u>-</u>	<u>32,837</u>
Total expenses	<u>571,017</u>	<u>-</u>	<u>571,017</u>
INCREASE/(DECREASE) IN NET ASSETS	(42,691)	(2,788)	(45,479)
NET ASSETS AT BEGINNING OF YEAR	<u>65,618</u>	<u>2,788</u>	<u>68,406</u>
NET ASSETS AT END OF YEAR	<u>\$ 22,925</u>	<u>\$ -</u>	<u>\$ 22,925</u>

See Accompanying Notes and Independent Auditor's Report.

ZERO1: THE ART & TECHNOLOGY NETWORK

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	<u>Art Activities</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Compensation	\$ 78,700	\$ 15,107	\$ 27,126	\$ 120,933
Payroll taxes	6,446	604	1,655	8,705
Employee benefits	5,888	1,717	1,883	9,488
Subtotal compensation	<u>91,034</u>	<u>17,428</u>	<u>30,664</u>	<u>139,126</u>
Conferences and meetings	-	1,493	75	1,568
Donations to partners	-	-	-	-
Dues/fees/licenses	529	1,828	101	2,458
Equipment lease/purchase	-	-	-	-
Insurance	-	4,543	-	4,543
Interest expense	-	-	-	-
Occupancy	1,015	5,536	329	6,880
Outside services	268,684	10,611	1,186	280,481
Postage	8,300	1,382	-	9,682
Printing	126	-	-	126
Professional services	27,174	15,933	-	43,107
Supplies	28,377	2,991	467	31,835
Telephone and internet	75	-	-	75
Travel	48,772	908	15	49,695
Depreciation expense	-	1,441	-	1,441
TOTAL	<u>\$ 474,086</u>	<u>\$ 64,094</u>	<u>\$ 32,837</u>	<u>\$ 571,017</u>

See Accompanying Notes and Independent Auditor's Report.

ZERO1: THE ART & TECHNOLOGY NETWORK

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	(45,479)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense		1,441
(Increase) decrease in operating assets		
Receivables		5,541
Prepaid expenses		(950)
Increase (decrease) in operating liabilities		
Accounts payable		(9,628)
Accrued compensation		2,200
Deferred revenue		94,283
NET CASH PROVIDED / (USED) BY OPERATING ACTIVITIES		<u>47,408</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of capital assets		<u>-</u>
NET CASH PROVIDED / (USED) BY INVESTING ACTIVITIES		<u>-</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		47,408
CASH AND CASH EQUIVALENTS, beginning of the year		<u>83,344</u>
CASH AND CASH EQUIVALENTS, end of the year	\$	<u><u>130,752</u></u>

See Accompanying Notes and Independent Auditor's Report.

ZERO1: THE ART & TECHNOLOGY NETWORK

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

ZERO1: The Art & Technology Network (ZERO1), the 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 2 – PROGRAM

ZERO1's core program includes American Arts Incubator (AAI), supported by the US Department of State's Bureau of Educational and Cultural Affairs. The program sends some of the most fertile and creative minds from the arts, science, technology, design and architecture abroad as cultural ambassadors on an international creative exchange to facilitate community-driven digital and new media art projects in five different countries annually. The purpose of AAI is to instigate dialogue, build communities, bolster local economies, and further social innovation. AAI artists also contribute to the Paseo Prototyping Festival in San Jose. ZERO1's public art program focuses on the presentation of The Swings, a free interactive art installation in which each swing emits the sounds of a different instrument, and the participants can change the note depending on how high they swing.

NOTE 3 – 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 on the statement of activities 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.

Credit Risk

Financial instrument that potentially subject the Organization to concentrations of credit risk is cash. The Organization places its cash in banks that are insured in limited amounts by the U.S. Government up to \$250,000. As of June 30, 2017, the Organization had no cash in the bank in excess of federally insured limits.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Equipment and Depreciation

Property and equipment are 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, contributions and donations are recognized as revenue in the period in which they are awarded in writing. Restricted grants, contributions 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.

Concentration of Revenue

The Organization received approximately 70% of its revenue from the U. S. Department of State.

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.

NOTE 4 – PROPERTY AND EQUIPMENT

Property, equipment and related accumulated depreciation is as follows:

Equipment and furniture	\$	43,983
Software and website design		<u>18,989</u>
Subtotal		62,972
Accumulated depreciation		<u>(62,403)</u>
Net book value	\$	<u><u>569</u></u>

Depreciation expense is \$1,441 for the year ended June 30, 2017.

NOTE 5 – 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 6 – TEMPORARILY RESTRICTED NET ASSETS

For the year ended June 30, 2017 the Organization's temporarily restricted net asset activity is as follows:

	<u>06/30/16</u>	<u>Additions</u>	<u>Releases</u>	<u>06/30/17</u>
Art Shipment Funds	\$ 2,788	\$ -	\$ 2,788	\$ -
Center for Cultural Innovation	-	1,200	1,200	-
Total	<u>\$ 2,788</u>	<u>\$ 1,200</u>	<u>\$ 3,988</u>	<u>\$ -</u>

NOTE 7 – IN-KIND CONTRIBUTIONS

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

During the year ended June 30, 2017, the Organization received donated services from unpaid volunteers that do not satisfy the criteria for recognition under FASB ASC 958-605-25-16.

There was a total of 5 volunteers for the year ended June 30, 2017, who performed docent services at the Paseo Prototyping Festival in April 2017.

In addition, the Organization received donated rent for Los Gatos location. Total estimated fair value of in-kind contribution recognized in the statement of activities for the year ended June 30, 2017 was \$4,000.

NOTE 8 – SUBSEQUENT EVENTS

Management of the Organization has reviewed the results of operations for the period of time from its year end, June 30, 2017, through August 16, 2018, 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.



INDEPENDENT AUDITOR'S 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 the 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 (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control.

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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "D. J. [unclear]", is positioned above the text.

Oakland, California
August 16, 2018