

ZERODIVIDE

*(Formerly Community Technology Foundation
of California)*

(A California Not-for-Profit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2008 AND 2007

ZERODIVIDE
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

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San Francisco, California

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of ZeroDivide, a California not-for-profit corporation, as of December 31, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of ZeroDivide's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of ZeroDivide's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ZeroDivide as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Lindquist, von Husen and Joyce LLP

June 10, 2009

ZERODIVIDE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 1,894,877	\$ 3,644,688
Cash held in trust (Note 7)	48,138	273,026
Investments (Note 3)	10,213,782	14,328,996
Grants receivable (Note 4)	128,309	275,000
Property and equipment – net (Note 5)	46,598	66,993
Other assets (Note 2)	114,772	780,654
	<u>\$ 12,446,476</u>	<u>\$ 19,369,357</u>
Total assets	<u>\$ 12,446,476</u>	<u>\$ 19,369,357</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 143,469	\$ 153,280
Grants payable (Note 6)	874,855	1,299,944
Fiscal liability (Note 7)	48,138	273,026
Total liabilities	<u>1,066,462</u>	<u>1,726,250</u>
Net assets:		
Unrestricted	3,694,511	5,527,357
Temporarily restricted (Note 8)	7,685,503	12,115,750
Total net assets	<u>11,380,014</u>	<u>17,643,107</u>
Total liabilities and net assets	<u>\$ 12,446,476</u>	<u>\$ 19,369,357</u>

The accompanying notes are an integral part of these financial statements.

ZERODIVIDE
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008		
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
Support and revenue:			
Contributions	\$ 663,535	\$ -	\$ 663,535
In-kind contributions	13,248	74,551	87,799
Interest and investment income	866,330	-	866,330
Revenue from special events	56,698	-	56,698
Less: cost of special events	(19,612)	-	(19,612)
Realized and unrealized loss from investments (Note 3)	(2,846,556)	-	(2,846,556)
Other income	13,344	-	13,344
Net assets released from restrictions (Note 8)	4,504,798	(4,504,798)	-
Total support and revenue	3,251,785	(4,430,247)	(1,178,462)
Expenses:			
Program services	4,324,832	-	4,324,832
Management and general	340,882	-	340,882
Fundraising	418,917	-	418,917
Total expenses	5,084,631	-	5,084,631
Change in net assets	(1,832,846)	(4,430,247)	(6,263,093)
Net assets, beginning of year	5,527,357	12,115,750	17,643,107
Net assets, end of year	\$ 3,694,511	\$ 7,685,503	\$ 11,380,014

The accompanying notes are an integral part of these financial statements.

ZERODIVIDE
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<i>2007</i>		
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
Support and revenue:			
Contributions	\$ 1,094,676	\$ 1,877,147	\$ 2,971,823
In-kind contributions	22,500	-	22,500
Interest and investment income	1,174,982	-	1,174,982
Realized and unrealized loss from investments (Note 3)	(99,774)	-	(99,774)
Other income	970	-	970
Net assets released from restrictions (Note 8)	5,003,412	(5,003,412)	-
Total support and revenue	<u>7,196,766</u>	<u>(3,126,265)</u>	<u>4,070,501</u>
Expenses:			
Program services	4,775,830	-	4,775,830
Management and general	336,272	-	336,272
Fundraising	464,545	-	464,545
Total expenses	<u>5,576,647</u>	<u>-</u>	<u>5,576,647</u>
Change in net assets	1,620,119	(3,126,265)	(1,506,146)
Net assets, beginning of year	<u>3,907,238</u>	<u>15,242,015</u>	<u>19,149,253</u>
Net assets, end of year	<u>\$ 5,527,357</u>	<u>\$ 12,115,750</u>	<u>\$ 17,643,107</u>

The accompanying notes are an integral part of these financial statements.

ZERODIVIDE
 STATEMENTS OF FUNCTIONAL EXPENSES
 YEARS ENDED DECEMBER 31, 2008 AND 2007

	<i>2008</i>			
	<i>Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total</i>
Program support salaries and benefits	\$ 1,085,845	\$ -	\$ -	\$ 1,085,845
Other salaries and benefits	-	230,353	311,041	541,394
Other operating expenses	814,822	110,529	107,876	1,033,227
Grants awarded (Note 6)	2,424,165	-	-	2,424,165
Total expenses	\$ 4,324,832	\$ 340,882	\$ 418,917	\$ 5,084,631

The accompanying notes are an integral part of these financial statements.

ZERODIVIDE
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<i>2007</i>			
	<i>Program Services</i>	<i>Management and General</i>	<i>Fundraising</i>	<i>Total</i>
Program support salaries and benefits	\$ 1,163,150	\$ -	\$ -	\$ 1,163,150
Other salaries and benefits	-	210,013	327,847	537,860
Other operating expenses	1,126,938	126,259	136,698	1,389,895
Grants awarded (Note 6)	2,485,742	-	-	2,485,742
Total expenses	\$ 4,775,830	\$ 336,272	\$ 464,545	\$ 5,576,647

The accompanying notes are an integral part of these financial statements.

ZERODIVIDE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (6,263,093)	\$ (1,506,146)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	43,233	94,660
Loss on impairment of assets	179,002	462,468
Unrealized and realized loss on investments	2,846,556	99,774
Amortization of discount on grants receivable	-	(1,352,146)
In-kind donations made – net	500,000	26,324
(Increase) decrease in assets:		
Other assets	(13,120)	(30,264)
Grants receivable	146,691	5,678,583
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(9,811)	31,989
Grants payable	(425,089)	220,696
	(2,995,631)	3,725,938
Cash flows from investing activities:		
Net (increase) decrease in investments	1,268,658	(1,321,530)
Purchase of property and equipment	(22,838)	(23,182)
	1,245,820	(1,344,712)
Increase (decrease) in cash and cash equivalents	(1,749,811)	2,381,226
Cash and cash equivalents, beginning of year	3,644,688	1,263,462
Cash and cash equivalents, end of year	\$ 1,894,877	\$ 3,644,688

The accompanying notes are an integral part of these financial statements.

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

ZeroDivide, formerly the Community Technology Foundation of California (the Foundation) invests in nonprofit organizations and community enterprises that leverage technology to benefit low-income, minority and other underserved communities. Since its inception in 1998, it has invested more than \$45 million in overcoming social, economic and cultural divides. Through philanthropic and corporate partnerships, it funds, trains and assists organizations become more self-sustaining by building new revenue sources. The Foundation realizes its commitment through an integrated strategic framework of engaged grant making (see Note 6), initiatives and supporting activities. The Foundation changed its name in early 2008 to ZeroDivide in order to better align its branding with its mission.

The Foundation's initiatives are:

- Leadership – cultivating community-based leaders who leverage technology for the benefit of underserved populations;
- Hip Hop – fostering a new generation of social entrepreneurs and advocates by harnessing technology and popular culture as a movement building pathway;
- Digital Story Telling Institute – supporting community based organizations' use of digital media to produce and distribute original content for and about their underserved clients and constituents.

The Foundation's supporting activities help sustain the work achieved through grants and initiatives, and include:

- Policy – supporting public policy directly related to the mission of the Foundation; and
- Convenings – are workshops, meetings and technology demonstrations promoting peer learning among grantees, fellows, and other partners to further the development of effective programs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The Foundation uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The Foundation reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets.

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

Revenue Recognition

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as unrestricted support or temporarily restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions restricted for the purchase of long-lived assets, are reported as unrestricted when expended for that purpose.

Contributed services are stated at their estimated fair value, if they are ordinarily purchased and are of a specialized nature.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of 3 months or less qualify as cash equivalents. The Foundation occasionally maintains cash on deposit at various banks in excess of the Federal Deposit Insurance Corporation limit (\$250,000) and investment accounts in excess of the Securities Investor Protection Corporation limit (\$500,000). The uninsured cash balance was approximately \$824,000 as of December 31, 2008. The Foundation has not experienced any losses in such accounts.

Investments

The Foundation adopted the provisions of SFAS No. 157, "Fair Value Measurements" (SFAS No. 157), effective January 1, 2008 in valuing its investments. Under SFAS No. 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Foundation uses various valuation approaches. SFAS No. 157 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs, if any, reflects the Foundation's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

Government Obligations

The fair value of government and agency bonds is generally based on quoted prices in active markets. When quoted prices are not available, fair value is determined based on a valuation model that uses inputs that include interest-rate yield curves, cross-currency-basis index spreads, and country credit spreads similar to the bond in terms of issuer, maturity and seniority. Government and agency bonds are generally categorized in Level 1 of the fair value hierarchy.

Certificates of Deposits and Corporate Bonds

The fair value of certificates of deposits and corporate bonds is estimated using recently executed transactions or market price quotations. These are generally categorized in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorized in Level 3 of the hierarchy.

Preferred Stocks

The Foundation values investments in securities that are freely tradable and are listed on a national securities exchange or reported on the NASDAQ national market at their last sales price as of the last business day of the year.

Investment Income and Gains

Interest and dividends, and realized and unrealized gains or losses on investments are recognized when earned or incurred. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Property and Equipment

Property and equipment is stated at cost of acquisition or fair value if donated. The costs of maintenance and repairs are charged to expense as incurred. Depreciation is computed based on the straight-line method over the estimated useful lives of the assets.

The useful lives of the assets are estimated as follows:

Equipment and furniture	3 to 5 years
Leasehold improvements	3 to 5 years

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

Grants Payable

Grants payable represent all unconditional grants that have been authorized prior to year-end, but remain unpaid as of the statements of financial position date. Grants are considered to be authorized after approval by the Foundation's board of directors or in the case of directive grants, by the president and chief executive officer, and chief community investment officer by authority of the board of directors. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied. There were \$500,000 and \$1,008,541 conditional grants at December 31, 2008 and 2007, respectively. The Foundation's practice is to obtain board approval of the amount requested, after which revisions may be made based on the Foundation's final review of the program and budget.

Fiscal Agent Liability

The Foundation serves as fiscal agent for Community Partnership Committee (CPC) to administer the fund for the Applied Research Initiative, also known as Think Tank (see Note 7).

In-kind Donations to be Re-Granted

In 2006, the Foundation entered into separate agreements with Microsoft Corporation and Joyent Inc. to create product and provisioned service "banks" for re-granting. The companies contributed either a fixed dollar value of eligible software products or a set number of provisioned service licenses, which the Foundation can distribute and administer as grants. The Foundation determines the value of distributions from these accounts based on the then prevailing market rate of the products or provisioned services distributed. The Foundation made grants from the product banks of \$574,551 and \$26,324 in 2008 and 2007, respectively. The balance of both the Microsoft and the Joyent product banks at December 31, 2008 was \$-0-.

The asset value of in-kind donations is subject to impairment. The impairment loss recognized in 2008 and 2007 was \$179,002 and \$360,000, respectively.

The balance of in-kind donation assets was \$33,644 and \$712,646 at December 31, 2008 and 2007, respectively. This is included in Other Assets in the accompanying Statements of Financial Position.

Income Taxes

The Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections.

Functional Expense Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 3 – INVESTMENTS

Investments at December 31, 2008 and 2007 are summarized as follows:

	2008		2007	
	<i>Cost</i>	<i>Fair Value</i>	<i>Cost</i>	<i>Fair Value</i>
Government obligations	\$ 321,137	\$ 325,724	\$ 1,855,352	\$ 1,890,650
Certificates of deposit	425,678	436,122	99,099	100,443
Corporate bonds	11,298,773	9,304,706	10,877,529	10,832,203
Mutual funds	-	-	1,165,520	1,492,260
Preferred stocks	189,794	147,230	14,994	13,440
Total	\$ 12,235,382	\$ 10,213,782	\$ 14,012,494	\$ 14,328,996

It is the Foundation's policy that not one security or set of securities, issued by a single entity (other than U.S. government obligations) may exceed 5% of the total investment portfolio. Net unrealized and realized loss on investments totaled \$2,464,670 and \$381,886, respectively in 2008 and net unrealized and realized loss of \$23,672 and \$76,102, respectively in 2007. Included in investments are accrued interest receivable of \$117,668 and \$147,422 as of December 31, 2008 and 2007, respectively.

The Foundation's investments recorded at fair value have been categorized based upon a fair value hierarchy of inputs in accordance with SFAS No. 157. See Note 2 for a discussion of the Foundation's policies. The following table presents information about the Foundation's fair value hierarchy inputs used in determining fair value of investments as of December 31, 2008:

	<i>Quoted Prices in</i>			<i>Balance as of</i> <i>December 31,</i> <i>2008</i>
	<i>Active Markets</i> <i>for Identical</i> <i>Assets</i> <i>(Level 1)</i>	<i>Significant Other</i> <i>Observable</i> <i>Inputs</i> <i>(Level 2)</i>	<i>Significant</i> <i>Unobservable</i> <i>Inputs</i> <i>(Level 3)</i>	
Government obligations	\$ 325,724	\$ -	\$ -	\$ 325,724
Certificates of deposit	-	436,122	-	436,122
Corporate bonds	-	9,304,706	-	9,304,706
Preferred stocks	147,230	-	-	147,230
Total	\$ 472,954	\$ 9,740,828	\$ -	\$ 10,213,782

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 4 – GRANTS RECEIVABLE

Grants receivable are summarized as follows:

	<u>2008</u>	<u>2007</u>
Grant	\$ 128,309	\$ 275,000
Net unconditional promises to give	<u>\$ 128,309</u>	<u>\$ 275,000</u>
Amounts due in:		
Less than one year	\$ 78,214	\$ 146,691
One to two years	\$ 50,095	\$ 78,214
Two to three years	\$ -	\$ 50,095

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	<u>2008</u>	<u>2007</u>
Equipment and furniture	\$ 295,415	\$ 272,577
Leasehold improvements	10,295	10,295
	<u>305,710</u>	<u>282,872</u>
Less: accumulated depreciation	<u>(259,112)</u>	<u>(215,879)</u>
Total property and equipment	<u>\$ 46,598</u>	<u>\$ 66,993</u>

NOTE 6 – GRANTS AWARDED

The Foundation awarded a total of \$2,424,165 and \$2,485,742 in grants (net of terminated grants) in 2008 and 2007, respectively, in the following program areas:

	<u>2008</u>	<u>2007</u>
Technology Literacy	\$ 2,030,528	\$ 2,239,715
Policy Advocacy	284,000	213,106
Research	-	14,415
ZFellows	60,190	15,000
Philanthropy Sector Support	51,947	46,600
	<u>2,426,665</u>	<u>2,528,836</u>
Less: grants terminated during the year ⁽¹⁾	<u>(2,500)</u>	<u>(43,094)</u>
	<u>\$ 2,424,165</u>	<u>\$ 2,485,742</u>

ZERODIVIDE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2008 AND 2007

In 2008, grants were awarded to the not-for-profit organizations listed below.

- AAPIP
- Access Humboldt
- Anew America Community Corporation
- Bay Area Video Coalition, Inc.
- Beneficent, Inc.
- Booker T Washington Community Service Center
- Center for Multicultural Cooperation
- Chinese Newcomers Service Center
- College Track
- Community Technology Network
- Council on Foundations
- CTCNet
- Disability Funders Network
- EPA.net
- Ewing M. Kauffman Foundation
- Familia Unida Living with Multiple Sclerosis
- Filipinos for Affirmative Action
- Grantmakers for Effective Organizations
- Health Access Foundation
- Hip Hop Congress
- Hispanics in Philanthropy
- HOPE
- EdText
- Just Think Foundation
- Kawaiisu Language and Cultural Center
- Koreatown Youth and Community Center
- La Clinica de la Raza
- Lambda Legal
- Leadership Excellence
- Little Tokyo Service Center
- Mercy Corps
- Mural Music & Arts Project
- NALEO Education Fund
- National Day Laborer Organizing Network
- Northern California Grantmakers
- Public Policy Institute of CA
- Radio Bilingue
- Reach LA
- Rubicon Programs Inc.
- Sacramento Region Community Foundation
- San Diego Futures Foundation
- So. CA Library Soc. Studies & Research
- Southern CA Tribal Chairman's Association
- Stanislaus Econ Dev & Workforce
- Street Tech
- Through the Looking Glass
- Tides Center/Generational Alliance
- Tulare County Off. Ed. Foundation
- Underdog Foundation
- Venice Arts in Neighborhoods
- YMCA of Greater Long Beach
- Yo! Youth Outlook
- Words Beats and Life

Grants are payable based on the terms of each grant agreement. The detail, per year the grants were initially awarded follows:

	<i>Balance at December 31,</i>	
	<i>2008</i>	<i>2007</i>
Year of award:		
2008	\$ 773,105	\$ -
2007	70,000	1,121,694
2006	31,750	175,750
2004	-	2,500
	\$ 874,855	\$ 1,299,944

⁽¹⁾ Funding of grants is contingent upon satisfaction of various conditions as defined in grant agreements. The Foundation, after reviewing compliance with grant conditions, terminates balances of certain non-compliant grants. Also reflected in terminated grants are refunds from grantees with unexpended balances. During 2008 and 2007, the Foundation terminated \$2,500 and \$43,094, respectively, of grants awarded.

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 7 – FISCAL AGENT LIABILITY

In 2003, the Foundation received \$1,025,000 from AT&T for the administration of the Community Partnership Committee’s Applied Research Initiative (Think Tank). The initiative’s objectives include: (1) to build a knowledge base by documenting the potential of community technology to bridge the digital divide; (2) to create a network of researchers, policymakers, community advocates and organizations, and practitioners promoting social justice through community technology; and (3) to promote greater understanding of issues and progress on the digital divide by key policymakers and leaders in philanthropy.

The activities for the year are as follows:

	<i>2008</i>	<i>2007</i>
Cash held at beginning of year	\$ 273,026	\$ 420,733
Less: expenses during the year		
Grants awarded ⁽¹⁾	(200,000)	(100,000)
Program services and administration	(24,888)	(47,707)
Cash held at year-end	\$ 48,138	\$ 273,026

⁽¹⁾ Out of the total grants awarded in 2008 and 2007, \$125,000 and \$75,000, respectively, are payable as of year-end and is included in grants payable in the Statements of Financial Position.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are for the following purposes or periods:

	<i>2008</i>			
	<i>December 31, 2007</i>	<i>Contributions</i>	<i>Releases from Restrictions</i>	<i>December 31, 2008</i>
Grant funding and program-related expenses	\$ 11,465,292	\$ 74,551	\$ 4,324,832	\$ 7,215,011
Administrative overhead	650,458	-	179,966	470,492
	\$ 12,115,750	\$ 74,551	\$ 4,504,798	\$ 7,685,503
	<i>2007</i>			
	<i>December 31, 2006</i>	<i>Contributions</i>	<i>Releases from Restrictions</i>	<i>December 31, 2007</i>
Grant funding and program-related expenses	\$ 14,445,832	\$ 1,795,290	\$ 4,775,830	\$ 11,465,292
Administrative overhead	796,183	81,857	227,582	650,458
	\$ 15,242,015	\$ 1,877,147	\$ 5,003,412	\$ 12,115,750

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

Net assets released from restrictions during 2008 and 2007 for grant funding and program-related expenses satisfying the restricted purposes are as follows:

	2008	2007
General grant making	\$ 3,576,482	\$ 4,016,152
Policy	220,112	248,421
Leadership	391,710	384,687
Convenings	136,528	126,570
	\$ 4,324,832	\$ 4,775,830

The AT&T grant that makes up most of the temporarily restricted net assets states that no more than 5% can be used for administrative overhead. Direct costs associated with awarding the grants are deemed to be program-related expenses, which are not subject to the 5% limit.

NOTE 9 – PENSION PLAN

The Foundation has established a defined contribution pension plan (the Plan) for the benefit of its employees. An employee must have six months of service before they can participate in the Plan. Employee retirement accounts are fully vested after four years of service. The Foundation contributes 10% of eligible employees' compensation and contributed \$127,349 and \$130,959 to the Plan during 2008 and 2007, respectively.

NOTE 10 – LEASE

The Foundation entered into an agreement to lease office space in San Francisco. The lease agreement terminates July 31, 2012, and the future minimum annual lease payments at December 31, 2008 are as follows:

2009	\$ 186,888
2010	193,351
2011	199,814
2012	118,758
2013	-
	\$ 698,811

Rent expense for 2008 and 2007 was \$182,324 and \$142,945, respectively.