

ZERODIVIDE

*(Formerly Community Technology Foundation
of California)*

(A California Not-for-Profit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

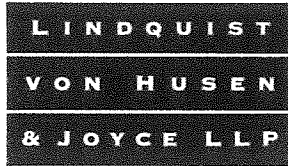
YEARS ENDED DECEMBER 31, 2010 AND 2009

ZERODIVIDE
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

TABLE OF CONTENTS

| | Page |
|--|------|
| Independent Auditor's Report | 1 |
| Statements of Financial Position | 3 |
| Statements of Activities | 4 |
| Statements of Functional Expenses | 6 |
| Statements of Cash Flows | 8 |
| Notes to Financial Statements | 9 |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 20 |

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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, 2010 and 2009, 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 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 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, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 20, 2011 on our consideration of ZeroDivide's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Lindquist, von Husen and Joyce LLP

May 20, 2011

ZERODIVIDE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|---|--------------|---------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 466,667 | \$ 1,004,081 |
| Cash held in trust (Note 7) | 13,103 | 16,785 |
| Investments (Note 3) | 8,589,788 | 10,217,139 |
| Grants receivable – net (Note 4) | 288,541 | 383,982 |
| Government contracts receivable (Note 11) | 113,557 | - |
| Other receivable (Note 11) | 249,170 | - |
| Property and equipment – net (Note 5) | 24,237 | 34,036 |
| Other assets | 81,996 | 67,129 |
| | \$ 9,827,059 | \$ 11,723,152 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 152,556 | \$ 107,902 |
| Grants payable (Note 6) | 262,000 | 233,227 |
| Fiscal liability (Note 7) | 13,103 | 16,785 |
| Total liabilities | 427,659 | 357,914 |
| Net assets: | | |
| Unrestricted | 5,480,954 | 5,426,299 |
| Temporarily restricted (Note 8) | 3,918,446 | 5,938,939 |
| Total net assets | 9,399,400 | 11,365,238 |
| Total liabilities and net assets | \$ 9,827,059 | \$ 11,723,152 |

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

ZERODIVIDE
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 AND 2009

| | <i>2010</i> | | |
|--|---------------------|-----------------------------------|---------------------|
| | <i>Unrestricted</i> | <i>Temporarily Restricted</i> | <i>Total</i> |
| Support and revenue: | | | |
| Contributions | \$ 20,647 | \$ 526,641 | \$ 547,288 |
| Government contracts income (Note 11) | 113,557 | - | 113,557 |
| Interest and investment income | 550,621 | - | 550,621 |
| Realized and unrealized gain from investments (Note 3) | 258,722 | - | 258,722 |
| Other income | 12,123 | - | 12,123 |
| Net assets released from restrictions (Note 8) | 2,547,134 | (2,547,134) | - |
| Total support and revenue | <u>3,502,804</u> | <u>(2,020,493)</u> | <u>1,482,311</u> |
| Expenses: | | | |
| Program services | 2,571,240 | - | 2,571,240 |
| Management and general | 419,058 | - | 419,058 |
| Fundraising | 457,851 | - | 457,851 |
| Total expenses | <u>3,448,149</u> | <u>-</u> | <u>3,448,149</u> |
| Change in net assets | 54,655 | (2,020,493) | (1,965,838) |
| Net assets, beginning of year | <u>5,426,299</u> | <u>5,938,939</u> | <u>11,365,238</u> |
| Net assets, end of year | <u>\$ 5,480,954</u> | <u>\$ 3,918,446</u> | <u>\$ 9,399,400</u> |

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

ZERODIVIDE
 STATEMENTS OF ACTIVITIES
 YEARS ENDED DECEMBER 31, 2010 AND 2009

| | 2009 | | |
|--|---------------------|-----------------------------------|---------------|
| | <i>Unrestricted</i> | <i>Temporarily Restricted</i> | <i>Total</i> |
| Support and revenue: | | | |
| Contributions | \$ 500,783 | \$ 849,738 | \$ 1,350,521 |
| Interest and investment income | 592,137 | - | 592,137 |
| Realized and unrealized loss from investments (Note 3) | 1,336,080 | - | 1,336,080 |
| Other income | 2,401 | - | 2,401 |
| Net assets released from restrictions (Note 8) | 2,596,302 | (2,596,302) | - |
| Total support and revenue | 5,027,703 | (1,746,564) | 3,281,139 |
| Expenses: | | | |
| Program services | 2,453,042 | - | 2,453,042 |
| Management and general | 412,427 | - | 412,427 |
| Fundraising | 430,446 | - | 430,446 |
| Total expenses | 3,295,915 | - | 3,295,915 |
| Change in net assets | 1,731,788 | (1,746,564) | (14,776) |
| Net assets, beginning of year | 3,694,511 | 7,685,503 | 11,380,014 |
| Net assets, end of year | \$ 5,426,299 | \$ 5,938,939 | \$ 11,365,238 |

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

ZERODIVIDE
 STATEMENTS OF FUNCTIONAL EXPENSES
 YEARS ENDED DECEMBER 31, 2010 AND 2009

| | <i>2010</i> | | | |
|---------------------------------------|-----------------------------|-----------------------------------|--------------------|--------------|
| | <i>Program Services</i> | <i>Management and General</i> | <i>Fundraising</i> | <i>Total</i> |
| Program support salaries and benefits | \$ 1,028,816 | \$ - | \$ - | \$ 1,028,816 |
| Other salaries and benefits | - | 256,747 | 344,455 | 601,202 |
| Other operating expenses | 771,593 | 162,311 | 113,396 | 1,047,300 |
| Grants awarded (Note 6) | 770,831 | - | - | 770,831 |
| Total expenses | \$ 2,571,240 | \$ 419,058 | \$ 457,851 | \$ 3,448,149 |

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

ZERODIVIDE
 STATEMENTS OF FUNCTIONAL EXPENSES
 YEARS ENDED DECEMBER 31, 2010 AND 2009

| | <i>2009</i> | | | <i>Total</i> |
|---------------------------------------|-----------------------------|-----------------------------------|--------------------|--------------|
| | <i>Program Services</i> | <i>Management and General</i> | <i>Fundraising</i> | |
| Program support salaries and benefits | \$ 1,009,303 | \$ - | \$ - | \$ 1,009,303 |
| Other salaries and benefits | - | 274,756 | 301,503 | 576,259 |
| Other operating expenses | 621,669 | 137,671 | 128,943 | 888,283 |
| Grants awarded (Note 6) | 822,070 | - | - | 822,070 |
| Total expenses | \$ 2,453,042 | \$ 412,427 | \$ 430,446 | \$ 3,295,915 |

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

ZERODIVIDE
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|--|----------------|--------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (1,965,838) | \$ (14,776) |
| Adjustments to reconcile changes in net assets to net cash used in operating activities: | | |
| Depreciation | 15,261 | 30,599 |
| Loss on impairment of assets | - | 21,144 |
| Unrealized and realized gain on investments | (258,722) | (1,336,080) |
| In-kind donations made – net | - | 12,500 |
| Loss on disposal of fixed assets | 1,623 | 2,912 |
| (Increase) decrease in assets: | | |
| Grants receivable | 95,441 | (255,673) |
| Government contracts receivable | (113,557) | - |
| Other receivable | (249,170) | - |
| Other assets | (14,867) | 13,999 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 44,654 | (35,567) |
| Grants payable | 28,773 | (641,628) |
| | (2,416,402) | (2,202,570) |
| Cash flows from investing activities: | | |
| Net decrease in investments | 1,886,073 | 1,332,723 |
| Purchase of property and equipment | (7,085) | (20,949) |
| | 1,878,988 | 1,311,774 |
| Decrease in cash and cash equivalents | (537,414) | (890,796) |
| Cash and cash equivalents, beginning of year | 1,004,081 | 1,894,877 |
| Cash and cash equivalents, end of year | \$ 466,667 | \$ 1,004,081 |

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

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

ZeroDivide (the Organization), formerly the Community Technology Foundation of California employs the power of technology to achieve social progress and opportunity in underserved and marginalized communities. The Organization partners with non-profit organizations and foundations to improve programmatic outcomes and results through technology.

The Organization has expertise and resources to help build capacity and integrate technology into non-profit community programs and operations. The Organization along with partner foundations and other grantmakers also provide funding to help realize the full impact of their technology integration plans.

The Organization's major programs are:

- Broadband Adoption & Usage – national program to invest in innovative programming that encourages sustainable adoption of technology, including broadband in vulnerable, underserved communities;
- Technology Integration & Capacity Building – partner with a variety of foundations and non-profit organizations to assess and plan to leverage the power of technology to improve programmatic outcomes and operational effectiveness;
- Social Enterprises – supporting cohort of digital media, youth-focused community organizations to produce and distribute original content for and about their underserved clients and constituents; and
- Renaissance Journalism Center (RJC) – incubator project to support innovative media and journalistic practices, including the use of new technology tools that support healthy pluralistic communities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The Organization 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 Organization 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, 2010 AND 2009

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.

Government contracts, which are funded on a reimbursement basis, are shown as unrestricted revenue.

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 three months or less qualify as cash equivalents. The Organization 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 \$76,000 as of December 31, 2010. The Organization has not experienced any losses in such accounts.

Grants Receivable

Grants receivable are stated at the present value of future cash flows the Organization expects to collect. The related discount on grants receivable is amortized on a straight-line basis over the number of years the receivable will be collected.

Investments

The Organization adopted the provisions of Generally Accepted Accounting Principles (GAAP), in valuing its investments. Under GAAP, 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 Organization uses various valuation approaches. GAAP 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 Organization. Unobservable inputs, if any, reflects the Organization'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 Organization 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.

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

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.

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.

Mutual Funds

Shares in mutual funds are based on share values reported by the funds on the last business day of the fiscal year. Exchange traded funds or funds providing daily liquidity and pricing are generally categorized in Level 1 of the fair value hierarchy.

Common and Preferred Stocks

The Organization 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. These are categorized in Level 1 of the fair value hierarchy.

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.

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

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 |

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 Organization'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 no conditional grants in both 2010 and 2009. The Organization practice is to obtain board approval of the amount requested, after which revisions may be made based on the Organization's final review of the program and budget.

Fiscal Agent Liability

The Organization 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).

Income Taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections. Contributions to the Organization qualify for the charitable contribution deduction and the Organization is not classified as a private foundation.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's federal and state income tax returns for the years 2006 through 2009 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

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.

Subsequent Events

The Organization has evaluated subsequent events through May 20, 2011, the date the financial statements were available to be issued. Management has determined, based on this evaluation that no events have occurred subsequent to December 31, 2010 and through May 20, 2011 that would require adjustment to, or disclosure in, these financial statements.

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 3 – INVESTMENTS

Investments at December 31, 2010 and 2009 are summarized as follows:

| | <i>2010</i> | | <i>2009</i> | |
|-----------------------------|---------------------|---------------------|----------------------|----------------------|
| | <i>Cost</i> | <i>Fair Value</i> | <i>Cost</i> | <i>Fair Value</i> |
| Government obligations | \$ 220,496 | \$ 223,521 | \$ - | \$ - |
| Certificates of deposit | 190,680 | 192,949 | 273,046 | 278,992 |
| Corporate bonds | 6,309,263 | 5,888,543 | 8,376,481 | 7,716,468 |
| Mutual funds | 2,100,000 | 2,206,366 | 1,950,000 | 2,026,110 |
| Common and preferred stocks | 58,300 | 78,409 | 158,335 | 195,569 |
| Total | \$ 8,878,739 | \$ 8,589,788 | \$ 10,757,862 | \$ 10,217,139 |

Net unrealized and realized gain on investments totaled \$203,651 and \$55,071, respectively in 2010 and net unrealized and realized gain (loss) of \$1,466,885 and \$(130,805), respectively in 2009. Included in investments are accrued interest receivable of \$80,014 and \$95,503 as of December 31, 2010 and 2009, respectively.

The Organization's investments recorded at fair value have been categorized based upon a fair value hierarchy of inputs in accordance with GAAP. See Note 2 for a discussion of the Organization's policies. The following table presents information about the Organization's fair value hierarchy inputs used in determining fair value of investments as of December 31, 2010 and 2009:

| | <i>2010</i> | | | |
|-----------------------------|---|--|--|--|
| | <i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i> | <i>Significant Other Observable Inputs (Level 2)</i> | <i>Significant Unobservable Inputs (Level 3)</i> | <i>Balance as of December 31, 2010</i> |
| Government obligations | \$ 223,521 | \$ - | \$ - | \$ 223,521 |
| Certificates of deposit | - | 192,949 | - | 192,949 |
| Corporate bonds | - | 5,888,543 | - | 5,888,543 |
| Mutual funds | 2,206,366 | - | - | 2,206,366 |
| Common and preferred stocks | 78,409 | - | - | 78,409 |
| Total | \$ 2,508,296 | \$ 6,081,492 | \$ - | \$ 8,589,788 |

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

| | 2009 | | | |
|-----------------------------|---|--|--|--|
| | <i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i> | <i>Significant Other Observable Inputs (Level 2)</i> | <i>Significant Unobservable Inputs (Level 3)</i> | <i>Balance as of December 31, 2010</i> |
| Certificates of deposit | \$ - | \$ 278,992 | \$ - | \$ 278,992 |
| Corporate bonds | - | 7,716,468 | - | 7,716,468 |
| Mutual funds | 2,026,110 | - | - | 2,026,110 |
| Common and preferred stocks | 195,569 | - | - | 195,569 |
| Total | \$ 2,221,679 | \$ 7,995,460 | \$ - | \$ 10,217,139 |

The following presents investments by category at fair value as of December 31, 2010:

| | 2010 |
|--|--------------|
| Government obligations: | |
| Municipal bonds | \$ 223,521 |
| Certificates of deposit: | |
| Certificates of deposits and equivalents | 192,949 |
| Corporate bonds: | |
| Corporate bonds – financial | 3,501,444 |
| Corporate bonds – industrial | 1,581,953 |
| Corporate bonds – utilities | 611,832 |
| Corporate bonds – consumer | 193,314 |
| Total | 5,888,543 |
| Mutual funds: | |
| Short-term bond index fund admirals shares | 491 |
| Short-term investment-grade fund admirals shares | 2,205,875 |
| Total | 2,206,366 |
| Common and preferred stocks | |
| Preferred stock – financial | 75,900 |
| Common stock – technology | 2,509 |
| Total | 78,409 |
| Total | \$ 8,589,788 |

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 4 – GRANTS RECEIVABLE

Grants receivable are summarized as follows:

| | <i>2010</i> | <i>2009</i> |
|-------------------------------|-------------------|-------------------|
| Unrestricted grants | \$ 8,648 | \$ - |
| Temporarily restricted grants | 281,000 | 388,014 |
| Less: unamortized discount | (1,107) | (4,032) |
| | <u>\$ 288,541</u> | <u>\$ 383,982</u> |
| | | |
| Amounts due in: | | |
| Less than one year | \$ 178,648 | \$ 207,014 |
| One to two years | \$ 109,893 | \$ 119,633 |
| Two to three years | \$ - | \$ 57,335 |

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

| | <i>2010</i> | <i>2009</i> |
|--------------------------------|------------------|------------------|
| Equipment and furniture | \$ 171,506 | \$ 167,102 |
| Leasehold improvements | 10,295 | 10,295 |
| | <u>181,801</u> | <u>177,397</u> |
| Less: accumulated depreciation | (157,564) | (143,361) |
| | <u>\$ 24,237</u> | <u>\$ 34,036</u> |

NOTE 6 – GRANTS AWARDED

The Organization awarded a total of \$770,831 and \$822,070 in grants (net of terminated grants) in 2010 and 2009, respectively, in the following program areas:

| | <i>2010</i> | <i>2009</i> |
|--|-------------------|-------------------|
| Technology Literacy | \$ 614,950 | \$ 661,600 |
| Policy Advocacy | - | 100,500 |
| ZFellows | - | 20,000 |
| Philanthropy Sector Support | 87,575 | 58,406 |
| Technology Assistance | 60,000 | - |
| Planning | 18,000 | - |
| | <u>780,525</u> | <u>840,506</u> |
| Less: grants terminated during the year ⁽¹⁾ | (9,694) | (18,436) |
| | <u>\$ 770,831</u> | <u>\$ 822,070</u> |

ZERODIVIDE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2010 AND 2009

In 2010, grants were awarded to the not-for-profit organizations listed below:

- Asian Americans/Pacific Islanders in Philanthropy
- Bay Area Blacks in Philanthropy
- Bay Area Video Coalition
- California Healthy Nail Salon Collaborative
- California Indian Environmental Alliance
- Center for Multicultural Cooperation
- Central Coast Center for Independent Living
- Council on Foundations
- Disability Funders Network
- Dolores Huerta Foundation
- EPA.net
- Free Speech TV
- Global Social Venture Competition and Conference
- Grantmakers for Effective Organizations
- Grantmakers in Film and Electronic Media
- Guernica
- Hispanics in Philanthropy
- Inveneo
- Mother Jones
- Mozilla Foundation
- Multicultural Institute
- National Civic League
- Netroots Arts & Education Initiative
- Nichi Bei Times
- Northern California Grantmakers
- Oakland Local
- Purple Moon Dance Project
- Resources for Independence Central Valley
- San Diego Futures Foundation
- San Francisco Zoo
- Second Chance Youth Program
- Sequoia Hospital Foundation
- Smithsonian Asian Pacific American Program
- Social Enterprise Alliance
- Somali Community Services
- Southern California Library
- St. Vincent de Paul Center
- UC Regents
- United Farm Workers Foundation
- West Fresno Health Care Coalition, Inc.
- Women's Audio Mission
- YMCA of Greater Long Beach
- Youth Radio

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>2010</i> | <i>2009</i> |
| Year of award: | | |
| 2010 | \$ 253,000 | \$ - |
| 2009 | 2,500 | 131,300 |
| 2008 | - | 92,927 |
| 2007 | 2,500 | 2,500 |
| 2006 | 4,000 | 6,500 |
| | \$ 262,000 | \$ 233,227 |

ZERODIVIDE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

- (1) Funding of grants is contingent upon satisfaction of various conditions as defined in grant agreements. The Organization, 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 2010 and 2009, the Organization terminated \$9,694 and \$18,436, respectively, of grants awarded.

NOTE 7 – FISCAL AGENT LIABILITY

In 2003, the Organization 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:

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|------------------|------------------|
| Cash held at beginning of year | \$ 16,785 | \$ 48,138 |
| Less: expenses during the year | | |
| Grants awarded | - | (15,000) |
| Program services and administration | (3,682) | (16,353) |
| Cash held at year-end | <u>\$ 13,103</u> | <u>\$ 16,785</u> |

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

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

| | <u>2010</u> | | | |
|--|------------------------------------|----------------------|---|------------------------------------|
| | <u>December 31,</u> <u>2009</u> | <u>Contributions</u> | <u>Releases from</u> <u>Restrictions</u> | <u>December 31,</u> <u>2010</u> |
| Grant funding and program-related expenses | \$ 5,535,671 | \$ 478,669 | \$ 2,451,307 | \$ 3,563,033 |
| Administrative overhead | 403,268 | 47,972 | 95,827 | 355,413 |
| | <u>\$ 5,938,939</u> | <u>\$ 526,641</u> | <u>\$ 2,547,134</u> | <u>\$ 3,918,446</u> |

| | <u>2009</u> | | | |
|--|------------------------------------|----------------------|---|------------------------------------|
| | <u>December 31,</u> <u>2008</u> | <u>Contributions</u> | <u>Releases from</u> <u>Restrictions</u> | <u>December 31,</u> <u>2009</u> |
| Grant funding and program-related expenses | \$ 7,215,011 | \$ 773,702 | \$ 2,453,042 | \$ 5,535,671 |
| Administrative overhead | 470,492 | 76,036 | 143,260 | 403,268 |
| | <u>\$ 7,685,503</u> | <u>\$ 849,738</u> | <u>\$ 2,596,302</u> | <u>\$ 5,938,939</u> |

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

Net assets released from restrictions during 2010 and 2009 for grant funding and program-related expenses satisfying the restricted purposes are as follows:

| | <i>2010</i> | <i>2009</i> |
|----------------------|--------------|--------------|
| General grant making | \$ 2,000,221 | \$ 1,809,793 |
| Policy | - | 150,954 |
| Leadership | - | 202,863 |
| Convenings | - | 169,537 |
| RJC | 451,086 | 119,895 |
| | \$ 2,451,307 | \$ 2,453,042 |

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 Organization 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 Organization contributes 10% of eligible employees' compensation and contributed \$126,600 and \$125,870 to the Plan during 2010 and 2009, respectively.

NOTE 10 – LEASE

The Organization 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, 2010 are as follows:

| | |
|------|------------|
| 2011 | \$ 199,814 |
| 2012 | 118,758 |
| | \$ 318,572 |

Rent expense for 2010 and 2009 was \$193,906 and \$188,231, respectively.

ZERODIVIDE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

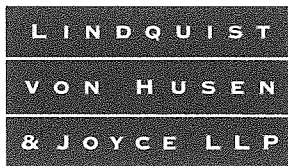
NOTE 11 – GOVERNMENT AWARDS

During August 2010, the Organization was awarded two cost-reimbursement grants from the U.S. Department of Commerce’s National Telecommunications and Information Administration as part of the American Recovery and Reinvestment Act for Sustainable Broadband Adoption through Broadband Technology Opportunities Program (BTOP). The term of both grant agreements will expire on July 31, 2013. The Organization will utilize its expertise in working with underserved communities through the following BTOP programs:

- Generation ZD Digital Literacy Program (GenZD) – the Organization was awarded \$1,384,242 to serve the low-income, minority, disabled, and otherwise underserved youth between the ages of 5-25, who have limited or no access to digital and information technology. The Organization will work with seven community anchor institutions across six western region states to accomplish the objectives of this project.
- Tribal Digital Village Broadband Adoption Program (TDV) – the Organization was awarded \$686,157 and will work with Southern California Tribal Chairmen’s Association (SCTCA) to implement a four-prong broadband adoption strategy which encompasses an outreach and public awareness campaign, basic digital literacy skills training, advanced content creation training, and sustainability among members of 19 Native American tribes in rural Southern California.

During 2010, the Organization advanced \$249,170 to SCTCA as part of the amount budgeted for 2011 program expenses.

During 2010, the Organization incurred a total of \$57,400 and \$56,157 in costs for GenZD and TDV, respectively. Total government contracts receivable at December 31, 2010 was \$113,557.



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The Management and Board of Directors
ZeroDivide
San Francisco, California

**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**

We have audited the financial statements of ZeroDivide, a California not-for-profit corporation, as of and for the year ended December 31, 2010, and have issued our report thereon dated May 20, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ZeroDivide's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ZeroDivide's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ZeroDivide's financial statements are free of 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*.

This report is intended solely for the information and use of management, others within the entity, the board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lindquist, von Husen and Joyce LLP

May 20, 2011