

**CALIFORNIA EMERGING TECHNOLOGY FUND
AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED
JUNE 30, 2008**

HCA & CO.

Management consulting and certified public accountancy firm

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Emerging Technology Fund (CETF)
San Francisco, California

We have audited the accompanying statements of financial position of California Emerging Technology Fund (CETF) (a California nonprofit public benefit organization) as of June 30, 2008, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 California Emerging Technology Fund as of June 30, 2008, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

HCA & Co.

HCA & CO., CPA
San Francisco, California

December 1, 2008

CALIFORNIA EMERGING TECHNOLOGY FUND (CETF)
STATEMENT OF FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

ASSETS

Cash	\$	32,773,896
Prepaid expense		12,972
Property and equipment, net		44,157
TOTAL ASSETS	\$	<u>32,831,025</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$	25,039
Grants payable		11,271,970
TOTAL LIABILITIES		<u>11,297,009</u>

NET ASSETS

Unrestricted:		<u>5,864,797</u>
TOTAL UNRESTRICTED		5,864,797
Temporarily restricted:		
Grant commitments		15,669,220
TOTAL TEMPORARILY RESTRICTED		<u>15,669,220</u>
Permanently restricted:		<u>-</u>
TOTAL PERMANENTLY RESTRICTED		-
TOTAL NET ASSETS		<u>21,534,017</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>32,831,025</u>

The accompanying notes are an integral part of these financial statements

**CALIFORNIA EMERGING TECHNOLOGY FUND (CETF)
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>REVENUES AND SUPPORT</u>				
Contributions	\$ 375,200	\$ -	\$ -	\$ 375,200
Grants	-	12,000,000		12,000,000
Miscellaneous	250	-	-	250
Investment income and gains	1,030,389	-	-	1,030,389
Net assets released from restrictions	15,525,137	(15,525,137)	-	-
TOTAL REVENUES AND SUPPORT	<u>16,930,976</u>	<u>(3,525,137)</u>	<u>-</u>	<u>13,405,839</u>
<u>EXPENSES</u>				
Program services				
Accessibility and community outreach	1,058,276	-	-	1,058,276
Information technology	84,611	-	-	84,611
Grant awards	14,382,250	-	-	14,382,250
Total program services	<u>15,525,137</u>	<u>-</u>	<u>-</u>	<u>15,525,137</u>
Supporting services				
Management and general	537,453	-	-	537,453
TOTAL EXPENSES	<u>16,062,590</u>	<u>-</u>	<u>-</u>	<u>16,062,590</u>
Change in net assets	868,386	(3,525,137)	-	(2,656,751)
Net assets, beginning of year	4,996,411	19,194,357	-	24,190,768
NET ASSETS, END OF YEAR	<u>\$ 5,864,797</u>	<u>\$ 15,669,220</u>	<u>\$ -</u>	<u>\$ 21,534,017</u>

The accompanying notes are an integral part of these financial statements

**CALIFORNIA EMERGING TECHNOLOGY FUND (CETF)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008**

	Program Services			Grant Awards	Total Program Services	Total Supportive Services Management and General	Total Expenses
	Accessibility and Community Outreach	Information Technology					
<u>Personnel Costs</u>							
Salaries and other compensations	\$ 409,149	37,195	\$ -	\$ -	\$ 446,344	\$ 297,563	\$ 743,907
Payroll taxes	20,915	1,901	-	-	22,816	15,211	38,027
Employee benefits	22,025	2,003	-	-	24,028	16,018	40,046
	452,089	41,099	-	-	493,188	328,792	821,980
<u>Other Expenses</u>							
Reimbursed employee expenses	14,523	1,321	-	-	15,844	10,562	26,406
Board cultivation and meetings	-	-	-	-	-	35,559	35,559
Professional services	-	-	-	-	-	108,926	108,926
Insurance	9,304	846	-	-	10,150	6,767	16,917
Occupancy	21,288	1,935	-	-	23,223	15,482	38,705
Telephone	10,397	945	-	-	11,342	7,561	18,903
Supplies	1,394	126	-	-	1,520	1,014	2,534
Printing and reproduction	5,640	513	-	-	6,153	4,102	10,255
Postage and delivery services	2,814	256	-	-	3,070	2,046	5,116
Equipment lease and maintenance	3,219	293	-	-	3,512	2,342	5,854
Miscellaneous	2,921	266	-	-	3,187	2,124	5,311
Depreciation	-	-	-	-	-	12,177	12,177
Consultants and outside services	109,992	-	-	-	109,992	-	109,992
Broadband mapping and related expenses	424,695	-	-	-	424,695	-	424,695
Information technology	-	37,011	-	-	37,011	-	37,011
Grant awards	-	-	14,382,250	-	14,382,250	-	14,382,250
TOTAL EXPENSES	\$ 1,058,276	\$ 84,611	\$ 14,382,250	\$ 14,382,250	\$ 15,525,137	\$ 537,453	\$ 16,062,590

The accompanying notes are an integral part of these financial statements

**CALIFORNIA EMERGING TECHNOLOGY FUND (CETF)
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets \$ (2,656,751)

**ADJUSTMENTS TO RECONCILE CHANGE IN NET
ASSETS TO NET CASH PROVIDED (USED) BY
OPERATING ACTIVITIES**

Depreciation	12,177
Prepaid expense	9,397
Accrued employees' vacation	23,027
Employee retirement contributions payable	(26,447)
Grants payable	11,271,970
Accrued expenses	2,011
Accounts payable	(94,873)

**NET CASH PROVIDED (USED) BY
OPERATING ACTIVITIES**

8,540,511

CASH FLOWS FROM INVESTING ACTIVITIES

Furniture and equipment (1,740)

**NET CASH (USED) BY
INVESTING ACTIVITIES**

(1,740)

CASH FLOWS FROM FINANCING ACTIVITIES

**NET CASH PROVIDED BY
FINANCING ACTIVITIES**

-

NET INCREASE IN CASH

8,538,771

Cash, beginning of year

24,235,125

CASH, END OF YEAR

\$ 32,773,896

The accompanying notes are an integral part of these financial statements

**CALIFORNIA EMERGING TECHNOLOGY FUND (CETF)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

1. ORGANIZATIONAL HISTORY AND PROGRAMS SUMMARY

The California Emerging Technology Fund (CETF) was established and funded through the SBC/AT&T and Verizon/MCI merger agreements approved by the California Public Utilities Commission (CPUC) in November 2005 to help bridge the Digital Divide. It became a qualified public benefit entity in May 2006.

As a condition of approval of the mergers, CPUC required the surviving companies, AT&T and Verizon, to collectively provide a total of \$60 million over a 5-year period to CETF in shareholder contributions to the fund “for the purpose of achieving ubiquitous access to broadband and advanced services in California, particularly in underserved communities, through the use of emerging technologies by 2010”. AT&T and Verizon are required to contribute \$9 million and \$3 million each per year respectively. Funds dedicated to CETF will be used to attract matching funds in like amounts from other organizations.

The primary purpose of establishing CETF is to fund deployment of broadband facilities in underserved communities, defined as communities without broadband service, communities with access to only one broadband service provider other than satellite, or below average broadband adoption rates. Communities with below average adoption rates primarily include low-income households, ethnic minority communities, disabled citizens, seniors, small businesses, and rural or high-cost geographic areas. The CETF will also focus on deployment of broadband facilities to bring critical advanced services to high cost and rural areas, such as telemedicine and online education. Underserved communities include, but not limited to, individuals, groups, and organizations that face telecommunications challenges or disadvantages due to disabilities, low incomes, inadequate telecommunications infrastructure, language and cultural differences, lack of technological understanding and/or equipment, and other constraints.

The stated mission of CETF is to provide leadership statewide to minimize the Digital Divide by accelerating the deployment and adoption of broadband and other advanced communication services to un-served and underserved communities. As stated herein, these tasks and initiatives would be accomplished by making investments in programs and projects to improve access, applications, affordability, accessibility and assistance to broadband – the “5As” of the Digital Divide – while utilizing its core paradigm of Communicate, Connect, and Compete.

The initial priority consumer communities for project focus are:

- Rural communities that lack the broadband infrastructure.
- Urban poor and disadvantaged communities that lack the computers and affordable connections to the Internet with relevant applications.
- Disabled populations that lack technology accessibility.

CALIFORNIA EMERGING TECHNOLOGY FUND (CETF)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

A. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues during the reporting periods. Actual results could differ from those estimates.

B. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when rights to receive them are earned, or when services have been provided, and expenditures are recorded when obligation to pay is incurred.

C. Financial Statement Presentation

The accompanying financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of CETF and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of CETF and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Total temporarily restricted net assets appropriated for grant commitments by the board of directors as of June 30, 2008 was \$15,669,220.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that stipulate that they be maintained permanently by CETF. Generally, the donors of these assets permit CETF to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at June 30, 2008.

CALIFORNIA EMERGING TECHNOLOGY FUND (CETF)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 (continued)

D. Revenue Recognition and Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting. Contribution income is recognized when there is an unconditional promise to give. Revenues are reported as increases in unrestricted net assets unless their use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Appreciation or depreciation in market value of investments and gains and losses on other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets is reported as net assets released from restrictions. Grant income is recognized when the service is provided and related conditions satisfied.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, CETF considers all unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents.

F. Comparative Financial Information

As this is the Organization's inaugural audit, no comparative financial information by net asset class is presented herein for the year ended June 30, 2008.

G. Functional Allocation of Expenses

Costs of providing programs and other activities are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated to the programs and supporting services by a method which best measured the relative degree of benefit. Accordingly, certain costs have been allocated between the program and supporting services in reasonable ratios determined by management.

H. Contributed Goods and Services, Unconditional Promises to Give

Contributions, including, unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation. Contributions to be received after one year are presented at their discounted value. CETF received approximately \$12.4 million in corporate grants during the fiscal year ended June 30, 2008. In addition, CETF secured matching funds of approximately \$24 million.

A substantial number of unpaid volunteers and board of director members have made significant contributions of their time and other resources to support the Organization's activities. The value of these services is not reflected in these statements since it is not susceptible to objective measurement or valuation.

CALIFORNIA EMERGING TECHNOLOGY FUND (CETF)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 (continued)

I. Grant Commitments and Payments

CETF made grant commitments (grant agreements and contracts) of approximately \$14.4 million, to various grantees, out of the total Board-approved grants of \$18.8 million during the audit period. Board-approved grant solicitation requests are not recognized as liabilities until management conclude due diligence and suitability analysis; and, then execute grant agreements evidencing the commitments. Total grant payments during the year was approximately \$3.1 million, with the remaining commitments of \$11.3 million accrued as a liability as of June 30, 2008.

J. Contingent Liabilities

Conditions contained within various contracts and grants awarded to CETF are subject to the funding organizations' criteria and regulations, as well as CPUC enabling Order, under which expenditures may be charged against and may be subject to audits under such regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the contracts or grant awards may not comply with the established criteria that govern them. In such cases, CETF could be held responsible for repayments to the funding organizations and/or oversight public agencies for the costs or be subject to the reductions of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts administered and/or grants received and/or awarded during the audit period.

K. Income Taxes and Exempt Status

CETF is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and California Revenue and Taxation Code Section 23701d. Accordingly, CETF does not pay federal or state income taxes and thus, no provision for income taxes has been made in these financial statements. In addition, CETF qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

L. Property, Equipment, Rights and Tenant Improvements

Property and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful life in accordance with Statement of Financial Accounting Standards, No. 93. Major additions are capitalized, and repair and maintenance that do not improve or extend the life of the assets are expensed. Computers and small furniture and fittings purchased during the fiscal year as applicable, were expensed.

CALIFORNIA EMERGING TECHNOLOGY FUND (CETF)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 (continued)

M. Operating Lease and Shared Cost Commitments

CETF is a party to a three-year non-cancelable operating lease for its principal office facility located in a commercial building in San Francisco, CA, requiring average monthly rent of \$1,991. The lease agreement expires on April 30, 2010 but provides renewal options.

During the audit period, CETF also maintains a satellite office facility in Southern California requiring no monthly rent payment. The fair market value of this office facility is approximately \$10,200. This amount was recognized as in-kind contributions during the year. While there were no lease payment requirements at the Southern California satellite office facility, CETF, is however, required to pay shared costs associated with the operation of the facility and other occupancy-related common costs based on a prorated allocation formula. CETF also leases certain equipment under monthly operating leases.

Total operating lease and facilities-related expenses for fiscal year ended June 30, 2008 was \$38,705. The approximate minimum future rental commitments and operating lease shared costs under all such noncancelable and potentially renewable operating leases are as follows:

<u>Year Ending June 30:</u>	
2008	\$38,705
2009	53,602
2010	55,280
2011	56,280
2012	<u>56,780</u>
	<u>\$260,647</u>

N. Property and Equipment

Property and equipment consist of the following as of June 30, 2008:

Furniture and fixtures	\$28,188
Computers and peripherals	<u>34,214</u>
	62,402
Less accumulated depreciation	<u>(18,245)</u>
Net book value	<u>\$44,157</u>

CALIFORNIA EMERGING TECHNOLOGY FUND (CETF)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 (continued)

O. Concentration of Grant Revenue and 10-Year Goal to Close the Digital Divide

As a relatively new entity, the Organization's support and revenue activities for the first five years are derived primarily from corporate grants provided by AT&T and Verizon, pursuant to the CPUC merger approval Order. Though the Organization plans to leverage these corporate grants through grant-matching efforts, there are no assurances that CETF would be successful in other fundraising initiatives and grant-matching efforts. Corporate grant funding obligation is subject to economic viability of the corporate donors amidst distressed prevailing economic and financial conditions. There is no indication about the renewability of the corporate grants after the initial 5-year period. However, management has proposed, and the board has adopted a 10-year goal to close the Digital Divide within the requisite constraint of not expending more than \$5 million annually of the seed grant resources for each of the remaining 8 years.

P. Concentration of Credit Risk

CETF maintains its cash balances at one financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation. At June 30, 2008, bank balances before reconciling items were approximately \$33 million of which \$100,000 was insured for during the year. It is the opinion of the management that the solvency of the financial institution is not of particular concern at this time.

Q. Pension Plan

CETF has established a 401(k) retirement plan to provide eligible employees with retirement benefits. All employees are eligible except for leased and hourly paid employees. CETF contributed 10% of active participants' compensation in the amount of \$60,493 for the year ended June 30, 2008.

R. Compensated Absences

CETF encourages its employees to take their vacation during the year that it is earned. When this is not possible, employees may accumulate time up to the limits according to their length of service in the organization. The employees do not gain a vested right to accumulated sick leave. The accumulated employee sick leave benefits are not recognized as liabilities of CETF, since payment of such benefits are recorded as expenditures in the period sick leave is taken. Vacation accrued as of June 30, 2008 was \$23,027. This amount has been included in accrued payroll and related liabilities.

S. Contributed In-Kind Support

Contributed services and costs are recognized at fair market value. The financial statements reflect \$10,200 for in-kind rental expense support for the Southern California office.

CALIFORNIA EMERGING TECHNOLOGY FUND (CETF)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 (continued)

T. Active Third-Party Grant and Project Administrator

Pursuant to applicable Statement of Financial Accounting Standards and in concert with the provisions of the CPUC enabling order, CETF acts as a pass-through, third-party grant administrator. Accordingly, CETF is authorized to receive grants from all permissible sources, solicit donation and grant-matching opportunities, administer and monitor grant awards to various third-party entities to achieve stated mission, priorities and objectives. CETF is primarily responsible for all aspects of grant administration, procurement, compliance with applicable terms and agreements, monitoring and ensuring the deliverable of desirable and aspirational outcomes. As a third-party grant administrator and pass-through entity, grant receipts pursuant to the CPUC order are recognized as revenues. Unpaid grant award commitments are properly accrued as liabilities.

In addition to previous \$24 million grant receipts, as of June 30, 2008, CETF received over \$12 million from AT&T and Verizon. The board of directors approved approximately \$18.8 million of grant proposals. The agency entered into grant agreements in the amount of \$14.4 million and paid out \$3.1 million. The remaining unpaid grant commitments of \$11.3 million were properly accrued as liabilities. Grant payments to grantees are subject to verifiable and quantifiable deliverables pursuant to various grant agreements.

In addition to setting up its operational infrastructure, the Organization was actively pursuing, soliciting, procuring, reviewing, recommending and approving grant proposals during the fiscal year that ended on June 30, 2008. The Organization expects ongoing grant-making activities during the coming years.