CALIFORNIA EMERGING TECHNOLOGY FUND

(A California Not-for-Profit Public Benefit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2009 AND JUNE 30, 2008

CALIFORNIA EMERGING TECHNOLOGY FUND

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RINA

Independent Auditors' Report

Board of Directors
California Emerging Technology Fund

We have audited the accompanying statement of financial position of the California Emerging Technology Fund, a California not-for-profit public benefit corporation, as of June 30, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of CETF's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of CETF as of June 30, 2008, were audited by other auditors whose report dated December 1, 2008, expressed an unqualified opinion on those statements.

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 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 the California Emerging Technology Fund as of June 30, 2009, 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.

RINA accountancy corporation

Certified Public Accountants

San Francisco, California
October 6, 2009

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CALIFORNIA EMERGING
TECHNOLOGY FUND

STATEMENT OF FINANCIAL POSITION

ASSETS	June 30, 2009	June 30, 2008
CURRENT:		
Cash and cash equivalents	$ 26,333,226	$ 32,773,895
Investments	9,992,700	0
Prepaid expenses	4,365	12,973
TOTAL CURRENT ASSETS	36,330,291	32,786,868
PROPERTY AND EQUIPMENT, net	39,370	44,157
	$ 36,369,661	$ 32,831,025

LIABILITIES AND NET ASSETS	June 30, 2009	June 30, 2008
CURRENT:		
Accounts payable and accrued expenses	$ 59,092	$ 25,039
Grants payable	9,819,154	11,271,970
TOTAL CURRENT LIABILITIES	9,878,246	11,297,009
NET ASSETS:		
Unrestricted	5,789,015	5,864,796
Temporarily restricted	20,702,400	15,669,220
Permanently restricted	0	0
TOTAL NET ASSETS	26,491,415	21,534,016
	$ 36,369,661	$ 32,831,025

See notes to financial statements.

CALIFORNIA EMERGING
TECHNOLOGY FUND

STATEMENT OF ACTIVITIES

	For the Year Ended June 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:				
Grants	$ 0	$ 12,000,000	$ 0	$ 12,000,000
Investment income	229,971	0	0	229,971
Miscellaneous	13,494	0	0	13,494
Net assets released from restrictions	6,966,820	(6,966,820)	0	0
TOTAL SUPPORT AND REVENUE	7,210,285	5,033,180	0	12,243,465
EXPENSES:				
Program services	6,966,820	0	0	6,966,820
Management and general	319,246	0	0	319,246
TOTAL EXPENSES	7,286,066	0	0	7,286,066
INCREASE (DECREASE) IN NET ASSETS	(75,781)	5,033,180	0	4,957,399
NET ASSETS, beginning of year	5,864,796	15,669,220	0	21,534,016
NET ASSETS, end of year	$ 5,789,015	$ 20,702,400	$ 0	$ 26,491,415

See notes to financial statements.

CALIFORNIA EMERGING
TECHNOLOGY FUND

STATEMENT OF ACTIVITIES

	For the Year Ended June 30, 2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:				
Grants	$ 0	$ 12,000,000	$ 0	$ 12,000,000
Contributions	375,200	0	0	375,200
Investment income	1,030,389	0	0	1,030,389
Miscellaneous	250	0	0	250
Net assets released from restrictions	15,525,137	(15,525,137)	0	0
TOTAL SUPPORT AND REVENUE	16,930,976	(3,525,137)	0	13,405,839
EXPENSES:				
Program services	15,525,137	0	0	15,525,137
Management and general	537,454	0	0	537,454
TOTAL EXPENSES	16,062,591	0	0	16,062,591
INCREASE (DECREASE) IN NET ASSETS	868,385	(3,525,137)	0	(2,656,752)
NET ASSETS, beginning of year	4,996,411	19,194,357	0	24,190,768
NET ASSETS, end of year	$ 5,864,796	$ 15,669,220	$ 0	$ 21,534,016

See notes to financial statements.

CALIFORNIA EMERGING TECHNOLOGY FUND

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009

	Program Services	Supporting Services	Total
Personnel Costs:			
Salaries and other compensation	$ 830,940	$ 146,637	$ 977,577
Payroll taxes	53,288	9,404	62,692
Employee retirement	76,504	13,500	90,004
Employee benefits	53,910	9,513	63,423
	1,014,642	179,054	1,193,696
Other Expenses:			
Grant awards	4,982,250	0	4,982,250
Consultants and outside services	767,628	0	767,628
Regional roundtables and outreach	31,196	0	31,196
Information technology	42,696	0	42,696
Board leadership and meetings	0	54,557	54,557
Professional services	0	65,096	65,096
Insurance	17,320	3,057	20,377
Occupancy	41,205	7,271	48,476
Telephone	19,842	3,502	23,344
Supplies	3,214	567	3,781
Printing and reproduction	7,876	1,390	9,266
Postage and delivery services	1,312	231	1,543
Equipment lease and maintenance	5,229	923	6,152
Depreciation	11,471	2,024	13,495
Media relations and communications	12,020	0	12,020
Miscellaneous	8,919	1,574	10,493
Total expenses	$ 6,966,820	$ 319,246	$ 7,286,066

See notes to financial statements.

CALIFORNIA EMERGING TECHNOLOGY FUND

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2008

	Program Services	Supporting Services	Total
Personnel Costs:			
Salaries and other compensation	$ 410,048	$ 273,366	$ 683,414
Payroll taxes	22,816	15,211	38,027
Employee retirement	36,296	24,197	60,493
Employee benefits	39,872	26,580	66,452
	509,032	339,354	848,386
Other Expenses:			
Grant awards	14,382,250	0	14,382,250
Broadband mapping and related expenses	424,695	0	424,695
Information technology	37,011	0	37,011
Board cultivation and meetings	0	35,559	35,559
Professional services	0	108,926	108,926
Insurance	10,150	6,767	16,917
Occupancy	23,223	15,482	38,705
Telephone	11,342	7,561	18,903
Supplies	1,520	1,014	2,534
Printing and reproduction	6,153	4,102	10,255
Postage and delivery services	3,070	2,046	5,116
Equipment lease and maintenance	3,512	2,342	5,854
Depreciation	0	12,177	12,177
Consultants and outside contractors	109,992	0	109,992
Miscellaneous	3,187	2,124	5,311
Total expenses	$ 15,525,137	$ 537,454	$ 16,062,591

See notes to financial statements.

CALIFORNIA EMERGING TECHNOLOGY FUND

STATEMENT OF CASH FLOWS

		Year Ended June 30, 2009		Year Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:				
Increase (decrease) in net assets		$ 4,957,399		$ (2,656,751)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Depreciation expense	$ 13,495		$ 12,177	
Realized gain on sale of investments	(144,352)		0	
Unrealied gain on investments	(7,374)		0	
Loss on disposal of property and equipment	1,848		0	
Changes in operating assets and liabilities:				
Prepaid expenses	8,607		9,396	
Accounts payable and accrued expenses	34,054		(96,282)	
Grants payable	(1,452,816)	(1,546,538)	11,271,970	11,197,261
NET CASH PROVIDED BY OPERATING ACTIVITIES		3,410,861		8,540,510
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment	(10,556)		(1,740)	
Proceeds from sale of marketable securities	37,719,767		0	
Purchases of marketable securities	(47,560,741)		0	
NET CASH USED BY INVESTING ACTIVITIES		(9,851,530)		(1,740)
CASH FLOWS FROM FINANCING ACTIVITIES		0		0
NET INCREASE (DECREASE) IN CASH		(6,440,669)		8,538,770
CASH AND CASH EQUIVALENTS, beginning of year		32,773,895		24,235,125
CASH AND CASH EQUIVALENTS, end of year		$26,333,226		$ 32,773,895

See notes to financial statements.

CALIFORNIA EMERGING TECHNOLOGY FUND

NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2009 AND JUNE 30, 2008

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of business:

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 "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 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. These tasks and initiatives will 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.
- Disabled populations that lack technology accessibility.

Financial statement presentation:

CETF prepares its financial statements following the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, CETF is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three net asset categories follows:

Unrestricted net assets:

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor imposed stipulations.

Temporarily restricted net assets:

The portion of net assets whose use by CETF is limited by donor imposed stipulations that either will be fulfilled or expire by 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.

CALIFORNIA EMERGING TECHNOLOGY FUND

NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2009 AND JUNE 30, 2008

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Permanently restricted net assets:

The portion of net assets whose use by CETF is limited by donor imposed stipulations that the net assets are held in perpetuity and its income be used for the stipulated purposes. 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, 2009 and 2008.

Basis of Presentation:

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 an obligation to pay is incurred.

Revenue Recognition:

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 conditions are satisfied.

Cash and Cash Equivalents:

CETF considers all unrestricted highly liquid investments with original maturities of three months of less to be cash equivalents.

Investments:

CETF reports investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Realized gains and losses on sales of securities are determined on the specific-identification method.

CETF invests in US Treasury Bills. Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

FASB Statement No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
Level 2	Inputs to the valuation methodology include: • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the asset or liability; • inputs that are derived principally from or corroborated by observable market data, by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

All of CETF's investments are valued using Level 1 measurements.

Contributions and 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 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 million and $12.4 million in corporate grants during the years ended June 30, 2009 and 2008, respectively.

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.

Property and equipment:

Property and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful life. Major additions are capitalized, and repair and maintenance that do not improve or extend the life of the assets are expensed.

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Contributions In-Kind:

Contributed services and costs are recognized at fair market value. The financial statements reflect $0 and $10,200 for in-kind rental expense support for the Southern California office during the years ended June 30, 2009 and 2008, respectively.

Grant Commitments and Payments:

CETF made grant commitments of approximately $5 million and $14.4 million out of the total cumulative board-approved grants of $20.2. Board-approved grant solicitation requests are not recognized as liabilities until management concludes due diligence and suitability analysis and then executes grant agreements evidencing the commitments. Total grant payments was approximately $6.4 million and $3.2 million, with the remaining commitments of $9.8 million and $11.3 million accrued as a liability as of June 30, 2009 and 2008, respectively. CETF requires most grant recipients to obtain matching funds. Matching funds of approximately $22.5 million and $24 million were secured during the years ended June 30, 2009 and 2008, respectively

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.

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 payments 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.

Income tax status:

CETF is a not-for-profit organization, exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and the applicable code section of the State of California Revenue and Taxation Code. 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).

NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2009 AND JUNE 30, 2008

Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Recent Pronouncements:

Accounting for uncertain tax provisions:

In June 2006 the FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions, recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination by a taxing authority. On December 30, 2008, the FASB issued FASB Staff Position FIN 48-3 which deferred the effective implementation date of FIN 48 to the Organization's annual financial statements ending on December 31, 2009 and the Company has elected to defer application of FIN 48. The Organization does not expect that the adoption of FIN 48 will have a material effect on its financial position, results of operations or cash flows.

Note 2. NATURE OF 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 certain reported amounts of assets and disclosures. Accordingly, actual results could differ from those estimates.

Note 3. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject CETF to concentrations of credit risk consist principally of cash and cash equivalents and marketable securities. Cash and cash equivalents were held in financial institutions in the United States of America. Non-interest bearing deposits in these financial institutions are fully insured by the FDIC until December 31, 2009. Cash and cash equivalents in interest bearing accounts were held in financial institutions in amounts exceeding the guaranteed amounts of the Federal Deposit Insurance Corporation. Marketable securities were held by brokerage firms in amounts exceeding the guaranteed amounts of the Securities Investor Protection Corporation. CETF is exposed to credit loss for amounts in excess of insured limits in the event of non-performance by the institutions. However, management does not anticipate non-performance by these institutions and has not experienced any losses on deposits of cash.

CALIFORNIA EMERGING
TECHNOLOGY FUND

NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2009 AND JUNE 30, 2008

Note 4. INVESTMENTS:

The investment portfolio is managed based on guidelines established by the CETF's Board of Directors. Investments, stated at fair value, are comprised of US Treasury bills with various maturities.

Investment income shown on the Statement of Activities consists of the following:

	June 30,	
	2009	2008
Interest and dividend income	$ 124,273	$ 32,756
Unrealized appreciation in fair value	7,374	0
Realized gains on sales of investments	144,352	997,633
Investment fees	(46,028)	0
Totals	$ 229,971	$ 1,030,389

Note 5. PROPERTY AND EQUIPMENT:

Property and equipment and accumulated depreciation consist of the following:

	June 30,	
	2009	2008
Furniture and fixtures	$ 30,184	$ 28,188
Computers and peripherals	39,654	34,214
Totals	69,838	64,402
Less accumulated deprecation	(30,468)	(18,245)
Balances	$ 39,370	$ 44,157

Note 6. RETIREMENT PLAN:

CETF has established a 401(k) retirement plan to provide eligible employees with retirement benefits. Eligible employees include all employees, except for leased and hourly paid employees. The CETF contributes 10% of active participants' compensation to the plan. For the years ended June 30, 2009 and 2008, contributions to the plan amounted to $90,004 and $60,493, respectively.

Note 7. GRANT REVENUE:

CETF'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 CETF plans to leverage these corporate grants through grant-matching efforts, there are no assurances that the 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 the remaining 8 years.

Note 8. LEASE 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. The average monthly rent is $1,991. The lease agreement expires on April 30, 2010, but provides renewal options.

CETF also maintained a satellite office facility in Southern California that required no monthly rent payments during the year June 30, 2008. The fair market value of this office facility was approximately $10,200. This amount was recognized as in-kind contributions during the year June 30, 2008. Effective July 1, 2008 to June 30, 2009 the CETF entered into a lease at the satellite office in Southern California. The lease will convert to month to month thereafter. CETF is required to pay shared costs associate 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.

CETF's future minimum rental commitments and operating lease shared costs under all such non-cancellable operating leases are approximately as follows:

Year Ending June 30,	
2010	$ 38,608

Total operating lease and facilities related expenses for the years ended June 30, 2009 and 2008 was $48,476 and $38,705, respectively.