

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

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

**SINGLE AUDIT REPORT**

**JUNE 30, 2011 AND JUNE 30, 2010**

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**TABLE OF CONTENTS**  
**JUNE 30, 2011 AND 2010**

Independent auditors' report	2
Statements of financial position	3
Statements of activities	4 - 5
Statements of functional expenses	6 - 7
Statements of cash flows	8
Notes to financial statements	9 - 16
Supplemental information:	
Schedule of expenditures of federal awards	18
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	19 - 20
Independent auditor's report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133	21 - 22
Schedule of findings and questioned costs	23



## Independent Auditors' Report

Board of Directors  
California Emerging Technology Fund

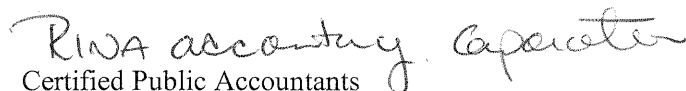
We have audited the accompanying statement of financial position of the California Emerging Technology Fund, a California not-for-profit public benefit corporation, as of June 30, 2011 and June 30, 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. 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.

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, 2011 and June 30, 2010, 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 our report dated October 5, 2011, on our consideration of California Emerging Technology Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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.

Our audit was performed for the purpose of forming an opinion on the financial statements of California Emerging Technology Fund taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
Certified Public Accountants

San Francisco, California  
October 5, 2011

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**STATEMENTS OF FINANCIAL POSITION**

<u>ASSETS</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>CURRENT:</b>		
Cash and cash equivalents	\$ 6,734,633	\$ 6,766,808
Investments	28,370,982	34,323,375
Prepaid expenses	20,352	14,560
<b>TOTAL CURRENT ASSETS</b>	<b>35,125,967</b>	<b>41,104,743</b>
PROPERTY AND EQUIPMENT, net	12,465	26,543
	<u>\$ 35,138,432</u>	<u>\$ 41,131,286</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
<b>CURRENT:</b>		
Accounts payable and accrued expenses	\$ 113,515	\$ 93,524
Federal grant advances	11,291	-
Grants payable	4,614,639	6,298,880
<b>TOTAL LIABILITIES (ALL CURRENT)</b>	<b>4,739,445</b>	<b>6,392,404</b>
<b>NET ASSETS:</b>		
Unrestricted	6,348,370	6,122,240
Temporarily restricted	24,050,617	28,616,642
Permanently restricted	-	-
<b>TOTAL NET ASSETS</b>	<b>30,398,987</b>	<b>34,738,882</b>
	<u>\$ 35,138,432</u>	<u>\$ 41,131,286</u>

See notes to financial statements.

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**STATEMENT OF ACTIVITIES**

	For the Year Ended June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE:</b>				
Corporate grants	\$ -	\$ 465,000	\$ -	\$ 465,000
Federal grants	-	7,317,567	-	7,317,567
Investment income	630,839	-	-	630,839
Net assets released from restrictions	12,348,592	(12,348,592)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>12,979,431</b>	<b>(4,566,025)</b>	<b>-</b>	<b>8,413,406</b>
<b>EXPENSES:</b>				
Program services	12,348,592	-	-	12,348,592
Management and general	404,709	-	-	404,709
<b>TOTAL EXPENSES</b>	<b>12,753,301</b>	<b>-</b>	<b>-</b>	<b>12,753,301</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>226,130</b>	<b>(4,566,025)</b>	<b>-</b>	<b>(4,339,895)</b>
<b>NET ASSETS, beginning of year</b>	<b>6,122,240</b>	<b>28,616,642</b>	<b>-</b>	<b>34,738,882</b>
<b>NET ASSETS, end of year</b>	<b>\$ 6,348,370</b>	<b>\$ 24,050,617</b>	<b>\$ -</b>	<b>\$ 30,398,987</b>

See notes to financial statements.

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**STATEMENT OF ACTIVITIES**

	For the Year Ended June 30, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE:</b>				
Grants	\$ -	\$ 12,325,000	\$ -	\$ 12,325,000
Federal grants	-	1,406,012	-	1,406,012
Investment income	732,939	-	-	732,939
Miscellaneous	10,378	-	-	10,378
Net assets released from restrictions	5,816,770	(5,816,770)	-	-
	<b>6,560,087</b>	<b>7,914,242</b>	<b>-</b>	<b>14,474,329</b>
<b>EXPENSES:</b>				
Program services	5,813,266	-	-	5,813,266
Management and general	413,596	-	-	413,596
	<b>6,226,862</b>	<b>-</b>	<b>-</b>	<b>6,226,862</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>333,225</b>	<b>7,914,242</b>	<b>-</b>	<b>8,247,467</b>
<b>NET ASSETS, beginning of year</b>	<b>5,789,015</b>	<b>20,702,400</b>	<b>-</b>	<b>26,491,415</b>
<b>NET ASSETS, end of year</b>	<b>\$ 6,122,240</b>	<b>\$ 28,616,642</b>	<b>-</b>	<b>\$ 34,738,882</b>

See notes to financial statements.

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2011**

	Program Services	Management and General	Total
<b>Personnel Costs:</b>			
Salaries and other compensation	\$ 1,088,571	\$ 192,101	\$ 1,280,672
Payroll taxes	68,310	12,055	80,365
Employee retirement	111,085	19,603	130,688
Employee benefits	116,544	20,567	137,111
	1,384,510	244,326	1,628,836
<b>Other Expenses:</b>			
Grant awards	1,607,649	-	1,607,649
Consultants and outside services	838,288	-	838,288
Regional roundtables and outreach	44,747	-	44,747
Information technology	32,357	-	32,357
BAA	4,196,599	-	4,196,599
ACT	3,182,510	-	3,182,510
School 2 home	873,545	-	873,545
Board leadership and meetings	-	47,040	47,040
Professional services	-	91,921	91,921
Insurance	15,741	2,778	18,519
Occupancy	37,678	6,649	44,327
Telephone	23,835	4,206	28,041
Supplies	4,922	869	5,790
Printing and reproduction	11,620	2,051	13,671
Postage and delivery services	2,549	450	2,999
Equipment lease and maintenance	5,240	925	6,165
Depreciation	15,269	2,695	17,964
Media relations and communications	67,000	-	67,000
Miscellaneous	4,533	800	5,333
	\$ 12,348,592	\$ 404,709	\$ 12,753,301
	\$ 12,348,592	\$ 404,709	\$ 12,753,301

See notes to financial statements.

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2010**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
<b>Personnel Costs:</b>			
Salaries and other compensation	\$ 1,076,116	\$ 189,903	\$ 1,266,019
Payroll taxes	63,813	11,261	75,074
Employee retirement	96,002	16,942	112,944
Employee benefits	109,330	19,294	128,624
Total personnel costs	1,345,261	237,400	1,582,661
<b>Other Expenses:</b>			
Grant awards	539,000	-	539,000
Consultants and outside services	809,377	-	809,377
Regional roundtables and outreach	28,214	-	28,214
Information technology	37,799	-	37,799
BAA	2,368,698	-	2,368,698
School 2 home	408,238	-	408,238
Board leadership and meetings	-	69,814	69,814
Professional services	-	81,286	81,286
Insurance	13,076	2,307	15,383
Occupancy	46,024	8,122	54,146
Telephone	24,183	4,268	28,451
Supplies	5,471	966	6,437
Printing and reproduction	14,646	2,585	17,231
Postage and delivery services	7,349	1,297	8,646
Equipment lease and maintenance	11,334	2,000	13,334
Depreciation	14,152	2,497	16,649
Media relations and communications	134,470	-	134,470
Miscellaneous	5,974	1,054	7,028
Total expenses	<u>\$ 5,813,266</u>	<u>\$ 413,596</u>	<u>\$ 6,226,862</u>

See notes to financial statements.



**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**STATEMENTS OF CASH FLOWS**

	Year Ended June 30, 2011	Year Ended June 30, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (4,339,895)	\$ 8,247,467
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation expense	\$ 17,964	\$ 16,649
Realized loss (gain) on sale of investments	9,170	(500)
Unrealized loss (gain) on investments	54,499	(421,600)
Loss on disposal of property and equipment	-	-
Changes in operating assets and liabilities:		
Prepaid expenses	(5,793)	(10,195)
Accounts payable and accrued expenses	19,990	34,433
Federal grant advances	11,291	-
Grants payable	(1,684,241)	(3,520,274)
	(1,577,120)	(3,520,274)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	(5,917,015)	4,345,980
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(3,885)	(3,823)
Proceeds from sale of marketable securities	7,772,323	27,403,449
Purchases of marketable securities	(1,883,598)	(51,312,024)
	5,884,840	(23,912,398)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	5,884,840	(23,912,398)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
	-	-
<b>NET DECREASE IN CASH</b>	(32,175)	(19,566,418)
CASH AND CASH EQUIVALENTS, beginning of year	6,766,808	26,333,226
CASH AND CASH EQUIVALENTS, end of year	\$ 6,734,633	\$ 6,766,808

See notes to financial statements.

# CALIFORNIA EMERGING TECHNOLOGY FUND

## NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2011 AND JUNE 30, 2010

### **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 applications.
- Disabled populations that lack technology accessibility.

#### Financial statement presentation:

Professional accounting standards require CETF 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, 2011 AND JUNE 30, 2010

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

Financial statement presentation (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, 2011 and 2010.

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 or 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 U.S. treasury bills, fixed income securities, and mutual funds. Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, 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.

Professional accounting standards 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).

# CALIFORNIA EMERGING TECHNOLOGY FUND

## NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2011 AND JUNE 30, 2010

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

#### Investments (Continued):

The three levels of the fair value hierarchy under professional accounting standards are described as follows:

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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.

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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.

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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.

#### 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 \$500,000 and \$12,300,000 in corporate grants during the years ended June 30, 2011 and 2010, respectively.

A substantial number of unpaid volunteers and board of director members have made significant contributions of their time and other resources to support CETF'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.

# CALIFORNIA EMERGING TECHNOLOGY FUND

## NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2011 AND JUNE 30, 2010

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

#### Grant Commitments and Payments:

CETF made grant commitments of approximately \$2.1 million (2011) and \$1.2 million (2010) out of the total cumulative board-approved grants of \$23.3. 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 \$3.5 million and \$5 million, with the remaining commitments of \$4.8 million and \$6.3 million accrued as a liability as of June 30, 2011 and 2010, respectively. CETF requires most grant recipients to obtain matching funds. Matching funds of approximately \$22.1 and \$19.1 million were secured during the years ended June 30, 2011 and 2010, 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) 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) of the U.S. Internal Revenue Code.

# CALIFORNIA EMERGING TECHNOLOGY FUND

## NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2011 AND JUNE 30, 2010

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

Income tax status (continued):

CETF recognizes the financial statement benefit of an uncertain tax position after considering the probability that a tax authority would sustain the position in an examination. For tax positions meeting a “more-likely-than-not” threshold, the amount recognized in the financial statements is the benefit expected to be realized upon settlement with the tax authority. For tax positions not meeting the threshold, no financial statement benefit is recognized. CETF recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense. Income tax returns for the years prior to 2007 are no longer subject to examination by tax authorities. CETF is relying on its tax-exempt status and its adherence to all applicable laws and regulations to preserve that status.

Subsequent events:

Management has evaluated subsequent events through October 5, 2011, the date which the financial statements were available for issue. No significant events were identified that require any additional disclosure.

### **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. Cash and cash equivalents in interest bearing accounts were held in financial institutions in amounts exceeding the guaranteed amounts of the FDIC. 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 and cash equivalents.

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2011 AND JUNE 30, 2010**

**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 the following:

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Government securities	\$ 4,444,887	\$ 4,520,310	\$ 3,996,780	\$ 3,998,000
Fixed income securities	9,512,480	9,808,911	15,180,217	15,568,057
Mutual funds	<u>13,970,810</u>	<u>14,041,760</u>	<u>14,595,300</u>	<u>14,757,318</u>
Total	<u>\$ 27,928,177</u>	<u>\$ 28,370,981</u>	<u>\$ 33,772,297</u>	<u>\$ 34,323,375</u>

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

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 772,080	\$ 333,926
Realized and unrealized gains on sales of investments	(63,669)	422,100
Investment fees	<u>(77,572)</u>	<u>(23,087)</u>
Totals	<u>\$ 630,839</u>	<u>\$ 732,939</u>

**Note 5. FAIR VALUE MEASUREMENTS:**

The following tables sets forth by level, the fair value hierarchy, the plan's assets at fair value as of June 30, 2011 and 2010:

**Assets at Fair Value as of June 30, 2011**

	<u>Quoted Prices In Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
Government securities	\$ 4,520,310	\$ -	\$ -	\$ 4,520,310
Fixed income	9,808,911	-	-	9,808,911
Mutual funds	<u>14,041,760</u>	<u>-</u>	<u>-</u>	<u>14,041,760</u>
Total investments	<u>\$ 28,370,981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,370,981</u>

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2011 AND JUNE 30, 2010**

**Note 5. FAIR VALUE MEASUREMENTS (Continued):**

**Assets at Fair Value as of June 30, 2010**

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Government securities	\$ 3,998,000	\$ -	\$ -	\$ 3,998,000
Fixed income	15,568,057	-	-	15,568,057
Mutual funds	14,757,318	-	-	14,757,318
Total investments	\$ 34,323,375	\$ -	\$ -	\$ 34,323,375

**Note 6. PROPERTY AND EQUIPMENT:**

Property and equipment and accumulated depreciation consist of the following:

	June 30,	
	2011	2010
Furniture and fixtures	\$ 32,347	\$ 32,347
Computers	45,199	41,313
Totals	77,546	73,660
Less accumulated depreciation	(65,081)	(47,117)
	\$ 12,465	\$ 26,543

**Note 7. 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, 2011 and 2010, contributions to the plan amounted to \$130,688 and \$112,944, respectively.



# CALIFORNIA EMERGING TECHNOLOGY FUND

## NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2011 AND JUNE 30, 2010

### **Note 8. 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. Final grant payments under this agreement were received during fiscal year ending June 30, 2010. 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 of the remaining 8 years.

### **Note 9. 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 \$3,680. The lease agreement expires on April 30, 2013.

Effective December 1, 2009 CETF entered into a month to month lease at the satellite office in Southern California. CETF is 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.

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

Year Ending <u>June 30,</u>	
2012	\$ 42,370
2013	<u>44,570</u>
Total	<u>\$ 86,940</u>

Total operating lease and facilities related expenses for the years ended June 30, 2011 and 2010 was \$44,327 and \$54,146, respectively.

**CALIFORNIA EMERGING TECHNOLOGY FUND**

**SUPPLEMENTAL INFORMATION**

**CALIFORNIA EMERGING TECHNOLOGY FUND**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures Per Grant</u>
<u>National Telecommunication and Information Administration</u>		
Broadband Adoption and Awareness		
CETF	11.557	\$ 174,491
Sub recipients:		
United Ways	11.557	848,151
Access Now	11.557	45,999
Center for Accessible Technology	11.557	265,428
Center to Promote Health Care	11.557	887,213
Chicana Latina Foundation	11.557	358,578
Dewey Square Group	11.557	602,645
Latino Community Foundation	11.557	481,911
Radio Blinque	11.557	<u>532,183</u>
Access to Careers and Technology		
CETF		\$ 424,626
Sub recipients:		
Caminos	11.557	\$ 167,800
CARAT	11.557	205,000
Chrysalis	11.557	127,770
Stride Center; EmpowerNet	11.557	119,625
Goodwill of SF/SF/Marin	11.557	175,710
OCCUR	11.557	40,000
SD Futures Foundation	11.557	769,350
SoEast Comm. Dev. Corp	11.557	163,230
Stride Center	11.557	480,000
The ACME Network	11.557	450,000
Youth Radio	11.557	<u>59,400</u>
Total Federal Awards		<u>\$ 7,379,110</u>

**Note A - Basis of Presentation:**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of California Emerging Technology Fund and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See notes to financial statements.



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**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***

The Board of Directors  
California Emerging Technology Fund

We have audited the financial statements of California Emerging Technology Fund (a California not-for-profit public benefit corporation) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 5, 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 California Emerging Technology Fund'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 California Emerging Technology Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of California Emerging Technology Fund'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 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 the 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 California Emerging Technology Fund'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, 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.

*RWA accounting Caperton*

Certified Public Accountants

San Francisco, California

October 5, 2011



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**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
California Emerging Technology Fund

**Compliance**

We have audited California Emerging Technology Fund’s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on California Emerging Technology Fund’s major federal programs for the year ended June 30, 2011. California Emerging Technology Fund's major federal programs are identified in the summary of auditors’ results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of California Emerging Technology Fund's management. Our responsibility is to express an opinion on California Emerging Technology Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about California Emerging Technology Fund’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of California Emerging Technology Fund’s compliance with those requirements.

In our opinion, California Emerging Technology Fund complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

**Internal Control Over Compliance**

Management of California Emerging Technology Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered California Emerging Technology Fund's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of California Emerging Technology Fund's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal reward program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and the use of the Board of Directors, management, 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.

RINA accounting Corporation

Certified Public Accountants

San Francisco, California  
October 5, 2011

# CALIFORNIA EMERGING TECHNOLOGY FUND

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2011

### SUMMARY OF AUDITORS' RESULTS:

- 1) The auditor's report expresses an unqualified opinion on the financial statement of California Emerging Technology Fund
- 2) No significant deficiencies relating to the audit of the financial statements were reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards.
- 3) No instances of noncompliance material to the financial statements of California Emerging Technology Fund were disclosed during the audit.
- 4) No significant deficiencies relating to the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- 5) The auditor's report on compliance for the major federal award program expresses an unqualified opinion.
- 6) There are no audit findings relative to the major federal award programs for California Emerging Technology Fund reported in this schedule.
- 7) The following programs were tested as major federal award programs:
  - Federal Agency: National Telecommunication and Information Administration  
CFDA: 11.557  
Program title: Broadband Adoption and Awareness
  - Federal Agency: National Telecommunication and Information Administration  
CFDA: 11.557  
Program title: Access to Careers and Technology
- 8) The threshold for distinguishing Type A and B programs was \$300,000.
- 9) California Emerging Technology Fund did not qualify as a low risk auditee.

### FINDINGS - FINANCIAL STATEMENT AUDIT:

None

### FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

None