



Communicate + Connect + Compete

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

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

**SINGLE AUDIT REPORT**

**JUNE 30, 2013 AND JUNE 30, 2012**



**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

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**JUNE 30, 2013 AND 2012**

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## **Independent Auditors' Report**

The Board of Directors  
California Emerging Technology Fund

We have audited the accompanying financial statements of California Emerging Technology Fund (a California not-for-profit public benefit corporation) which comprise the statement of financial position as of June 30, 2013 and June 30, 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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, 2013 and June 30, 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis 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 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2013, 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 in considering California Emerging Technology Fund's internal control over financial reporting and compliance.

*Riva Accountancy Corporation*

Certified Public Accountants

San Francisco, California  
November 18, 2013

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**STATEMENTS OF FINANCIAL POSITION**

<u>ASSETS</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<b>CURRENT:</b>		
Cash and cash equivalents	\$ 3,586,934	\$ 5,896,745
Investments	22,550,233	25,839,812
Federal grant receivable	-	54,669
Prepaid expenses	21,684	32,861
Other receivable	559	-
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	26,159,410	31,824,087
 PROPERTY AND EQUIPMENT, net	 1,145	 10,991
	<hr/>	<hr/>
	\$ 26,160,555	\$ 31,835,078
	<hr/> <hr/>	<hr/> <hr/>
 <u>LIABILITIES AND NET ASSETS</u>  		
<b>CURRENT:</b>		
Accounts payable and accrued expenses	\$ 104,235	\$ 506,336
Grants payable - short term	2,485,100	1,865,927
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	2,589,335	2,372,263
 Grants payable - long term	 1,573,350	 -
	<hr/>	<hr/>
TOTAL LIABILITIES	4,162,685	2,372,263
	<hr/>	<hr/>
<b>NET ASSETS:</b>		
Unrestricted	5,876,517	6,352,059
Temporarily restricted	16,121,354	23,110,756
Permanently restricted	-	-
	<hr/>	<hr/>
TOTAL NET ASSETS	21,997,870	29,462,815
	<hr/>	<hr/>
	\$ 26,160,555	\$ 31,835,078
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See notes to financial statements.

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**STATEMENT OF ACTIVITIES**

	For the Year Ended June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE:</b>				
Non federal grants	\$ -	\$ 25,369	\$ -	\$ 25,369
Federal grants	-	1,598,225	-	1,598,225
Investment income	3,503	-	-	3,503
Net assets released from restrictions	8,612,996	(8,612,996)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>8,616,499</b>	<b>(6,989,402)</b>	<b>-</b>	<b>1,627,097</b>
<b>EXPENSES:</b>				
Program services	8,612,996	-	-	8,612,996
Management and general	479,045	-	-	479,045
<b>TOTAL EXPENSES</b>	<b>9,092,041</b>	<b>-</b>	<b>-</b>	<b>9,092,041</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(475,542)</b>	<b>(6,989,402)</b>	<b>-</b>	<b>(7,464,944)</b>
<b>NET ASSETS, beginning of year</b>	<b>6,352,059</b>	<b>23,110,756</b>	<b>-</b>	<b>29,462,815</b>
<b>NET ASSETS, end of year</b>	<b>\$ 5,876,517</b>	<b>\$ 16,121,354</b>	<b>\$ -</b>	<b>\$ 21,997,871</b>

See notes to financial statements.

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**STATEMENT OF ACTIVITIES**

	For the Year Ended June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE:</b>				
Non federal grants	\$ -	\$ 24,000	\$ -	\$ 24,000
Federal grants	-	4,547,074	-	4,547,074
Investment income	616,029	-	-	616,029
Net assets released from restrictions	5,510,935	(5,510,935)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>6,126,964</b>	<b>(939,861)</b>	<b>-</b>	<b>5,187,103</b>
<b>EXPENSES:</b>				
Program services	5,688,406	-	-	5,688,406
Management and general	434,869	-	-	434,869
<b>TOTAL EXPENSES</b>	<b>6,123,275</b>	<b>-</b>	<b>-</b>	<b>6,123,275</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>3,689</b>	<b>(939,861)</b>	<b>-</b>	<b>(936,172)</b>
NET ASSETS, beginning of year	6,348,370	24,050,617	-	30,398,987
NET ASSETS, end of year	\$ 6,352,059	\$ 23,110,756	\$ -	\$ 29,462,815

See notes to financial statements.

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2013**

	Program Services	Management and General	Total
<b>Personnel Costs:</b>			
Salaries and other compensation	\$ 1,275,976	\$ 225,172	\$ 1,501,148
Payroll taxes	77,434	13,665	91,099
Employee retirement	134,681	23,767	158,448
Employee benefits	139,745	24,661	164,406
Vacation liability expense	(7,314)	(1,291)	(8,605)
	<hr/>	<hr/>	<hr/>
Total personnel costs	1,620,522	285,974	1,906,496
<b>Other Expenses:</b>			
Grant awards	4,037,684	-	4,037,684
Grants rescinded	(29,524)	-	(29,524)
BAA	575,316	-	575,316
ACT	1,052,265	-	1,052,265
School2Home	656,687	-	656,687
Consultants and outside services	384,007	-	384,007
Media relations and communications	117,395	-	117,395
Professional services	-	96,227	96,227
Occupancy	62,529	11,035	73,564
Board leadership and meetings	-	70,717	70,717
Telephone	24,317	4,291	28,608
Insurance	24,132	4,259	28,391
Information technology	25,644	-	25,644
Regional roundtables and outreach	24,952	-	24,952
Miscellaneous	11,635	2,053	13,688
Depreciation	9,342	1,649	10,991
Printing and reproduction	7,283	1,285	8,568
Equipment lease and maintenance	4,656	822	5,478
Postage and delivery services	4,153	733	4,886
	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 8,612,996</u>	<u>\$ 479,045</u>	<u>\$ 9,092,041</u>

See notes to financial statements.



**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2012**

	Program Services	Management and General	Total
<b>Personnel Costs:</b>			
Salaries and other compensation	\$ 1,159,287	\$ 204,580	\$ 1,363,867
Payroll taxes	71,140	12,554	83,694
Employee retirement	99,071	17,483	116,554
Employee benefits	144,798	25,553	170,351
Vacation liability expense	3,557	628	4,185
	<hr/>	<hr/>	<hr/>
Total personnel costs	1,477,853	260,798	1,738,651
<b>Other Expenses:</b>			
Grant awards	1,937,471	-	1,937,471
Grant rescinded	(3,355,837)	-	(3,355,837)
BAA	1,179,740	-	1,179,740
ACT	3,308,146	-	3,308,146
School2Home	594,417	-	594,417
Consultants and outside services	322,939	-	322,939
Media relations and communications	36,453	-	36,453
Professional services	-	91,515	91,515
Occupancy	47,758	8,428	56,186
Board leadership and meetings	-	60,195	60,195
Telephone	23,683	4,179	27,862
Insurance	19,897	3,511	23,408
Information technology	31,139	-	31,139
Regional roundtables and outreach	29,377	-	29,377
Miscellaneous	4,518	798	5,316
Depreciation	12,407	2,189	14,596
Printing and reproduction	10,040	1,772	11,812
Equipment lease and maintenance	5,042	890	5,932
Postage and delivery services	3,363	594	3,957
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Total expenses	<u>\$ 5,688,406</u>	<u>\$ 434,869</u>	<u>\$ 6,123,275</u>

See notes to financial statements.

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**STATEMENTS OF CASH FLOWS**

	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (7,464,944)	\$ (936,172)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation expense	\$ 10,990	\$ 14,596
Realized gains on sale of investments	(18,721)	-
Unrealized loss on investments	480,326	31,170
Changes in operating assets and liabilities:		
Prepaid expenses	11,176	(12,510)
Other receivable	(559)	-
Accounts payable and accrued expenses	(402,103)	392,820
Federal grant advances	54,669	(65,960)
Grants payable	2,192,524	(2,748,712)
	<u>2,328,302</u>	<u>(2,388,596)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(5,136,642)</b>	<b>(3,324,768)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(1,144)	(13,120)
Proceeds from sale of marketable securities	4,375,092	2,500,000
Purchases of marketable securities	(1,547,117)	-
	<u>2,826,831</u>	<u>2,486,880</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>2,826,831</b>	<b>2,486,880</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>NET DECREASE IN CASH</b>	<b>(2,309,811)</b>	<b>(837,888)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b><u>5,896,745</u></b>	<b><u>6,734,633</u></b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 3,586,934</u></b>	<b><u>\$ 5,896,745</u></b>

See notes to financial statements.

# CALIFORNIA EMERGING TECHNOLOGY FUND

## NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2013 AND JUNE 30, 2012

### **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. All assets that were released from restriction were utilized in the organizations mission to minimize the digital divide. The temporarily restricted fund balance at December 31, 2012 is held for the purpose of increasing access to broadband services.

# CALIFORNIA EMERGING TECHNOLOGY FUND

## NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2013 AND JUNE 30, 2012

### **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, 2013 and 2012.

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, 2013 AND JUNE 30, 2012**

**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:
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- 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.
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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 \$25,369 and \$24,000 in non-federal grants during the years ended June 30, 2013 and 2012, 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, 2013 AND JUNE 30, 2012

### **Note 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(Continued):**

##### Grant commitments and payments:

CETF made grant commitments of approximately \$4.5 million (2013) and \$1.9 million (2012) out of the total cumulative board-approved grants of \$25.6. 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 were approximately \$2.3 million and \$1.2 million, with the remaining commitments of \$4 million and \$2.1 million accrued as a liability as of June 30, 2013 and 2012, respectively. CETF requires most grant recipients to obtain matching funds. Matching funds of approximately \$3.2 million and \$3.6 million were secured during the years ended June 30, 2013 and 2012, respectively.

During 2013, partial amount granted to UC Merced was returned to CETF upon completion of the project in which grant fund were not fully expended. This amount totaled \$29,524.

##### 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.

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 2009 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.

# CALIFORNIA EMERGING TECHNOLOGY FUND

## NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2013 AND JUNE 30, 2012

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

Subsequent events:

Management has evaluated subsequent events through November 18, 2013, the date which the financial statements were available for issue. No significant events were identified that require 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.

**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:

	June 30, 2013		June 30, 2012	
	Cost	Fair Value	Cost	Fair Value
Government securities	\$ 8,001,706	\$ 8,261,141	\$ 8,748,332	\$ 9,171,978
Fixed income securities	2,204,686	2,301,900	2,529,400	2,647,186
Mutual funds	<u>12,114,438</u>	<u>11,987,192</u>	<u>13,970,810</u>	<u>14,020,648</u>
Total	<u>\$ 22,320,830</u>	<u>\$ 22,550,233</u>	<u>\$ 25,248,542</u>	<u>\$ 25,839,812</u>

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

	2013	2012
Interest and dividend income	\$ 530,724	\$ 719,849
Realized and unrealized gains (losses) on sales of investments	(461,605)	(31,169)
Investment fees	<u>(65,616)</u>	<u>(72,651)</u>
Totals	<u>\$ 3,503</u>	<u>\$ 616,029</u>

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2013 AND JUNE 30, 2012**

**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, 2013 and 2012:

**Assets at Fair Value as of June 30, 2013**

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Government securities \$	-	\$ 8,261,141	\$ -	\$ 8,261,141
Fixed income	-	2,301,900	-	2,301,900
Mutual funds	<u>11,987,192</u>	<u>-</u>	<u>-</u>	<u>11,987,192</u>
Total investments	<u>\$ 11,987,192</u>	<u>\$ 10,563,041</u>	<u>\$ -</u>	<u>\$ 22,550,233</u>

**Assets at Fair Value as of June 30, 2012**

	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Government securities \$	-	\$ 9,171,978	\$ -	\$ 9,171,978
Fixed income	-	2,647,186	-	2,647,186
Mutual funds	<u>14,020,648</u>	<u>-</u>	<u>-</u>	<u>14,020,648</u>
Total investments	<u>\$ 14,020,648</u>	<u>\$ 11,819,164</u>	<u>\$ -</u>	<u>\$ 25,839,812</u>

**Note 6. PROPERTY AND EQUIPMENT:**

Property and equipment and accumulated depreciation consist of the following:

	June 30,	
	<u>2013</u>	<u>2012</u>
Furniture and fixtures	\$ 32,347	\$ 32,347
Computers	<u>59,465</u>	<u>58,321</u>
Totals	91,812	90,668
Less accumulated deprecation	<u>(90,667)</u>	<u>(79,677)</u>
	<u>\$ 1,145</u>	<u>\$ 10,991</u>



**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2013 AND JUNE 30, 2012**

**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, 2013 and 2012, contributions to the plan amounted to \$158,448 and \$116,554, respectively. It is the organization's policy to offset contributions with amounts forfeited. During the year ended June 30, 2013 and 2012, there were forfeitures of \$0 and \$15,200, respectively.

**Note 8. GRANTS PAYABLE:**

CETF's future grants payable are expected to be paid as follows:

Year Ending June 30,	
2014	\$ 2,485,100
2015	<u>1,573,350</u>
	<u>\$ 4,058,450</u>

**Note 9. GRANT REVENUE:**

CETF's support and revenue activities for the first five years were 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 5 years.

**Note 10. LEASE COMMITMENTS:**

CETF is a party to a five-year non-cancelable operating lease for its principal office facility located in a commercial building in San Francisco, CA. The average monthly rent is \$4,503. The lease agreement expires on June 30, 2017.

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.

**CALIFORNIA EMERGING  
TECHNOLOGY FUND**

**NOTES TO FINANCIAL STATEMENTS – JUNE 30, 2013 AND JUNE 30, 2012**

**Note 10. LEASE COMMITMENTS (Continued):**

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

<u>Year Ending June 30,</u>	
2014	\$ 54,036
2015	57,900
2016	61,152
2017	<u>61,152</u>
Total	<u>\$ 234,240</u>

Total operating lease and facilities related expenses for the years ended June 30, 2013 and 2012 was \$73,564 and \$70,509 gross, respectively.

**CALIFORNIA EMERGING TECHNOLOGY FUND**

**SUPPLEMENTAL INFORMATION**

**CALIFORNIA EMERGING TECHNOLOGY FUND**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures Per Grant</u>
<u>National Telecommunication and Information Administration</u>		
AARA-Broadband Adoption and Awareness		
CETF	11.557	\$ 25,258
Sub recipients:		
United Ways	11.557	103,000
Access Now	11.557	4,390
Center for Accessible Technology	11.557	32,998
Chicana Latina Foundation	11.557	21,617
Dewey Square Group	11.557	257,424
Latino Community Foundation	11.557	49,424
Radio Bilingue	11.557	51,849
ARRA-Access to Careers and Technology		
CETF	11.557	343,650
Sub recipients:		
Mission Economic Development Agency	11.557	80,400
CARAT	11.557	149,000
Chrysalis	11.557	19,766
Stride Center; EmpowerNet	11.557	20,750
Goodwill of SF/SF/Marin	11.557	58,580
OCCUR	11.557	45,000
San Diego Futures Foundation	11.557	136,300
SoEast Comm. Dev. Corp	11.557	23,500
Stride Center	11.557	100,136
The ACME Network	11.557	66,000
Youth Radio	11.557	<u>9,183</u>
Total Federal Awards		<u>\$ 1,598,225</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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**INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of California Emerging Technology Fund (a California not-for-profit public benefit corporation), which comprise the statement of financial position as of June 30, 2013 and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered California Emerging Technology Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether California Emerging Technology Fund's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Riva Accountancy Corporation".

Certified Public Accountants

San Francisco, California  
November 18, 2013



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## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Directors  
California Emerging Technology Fund

### **Report on Compliance for Each Major Federal Program**

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 each of California Emerging Technology Fund's major federal programs for the year ended June 30, 2013. California Emerging Technology Fund's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulation, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of California Emerging Technology Fund's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of California Emerging Technology Fund's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, California Emerging Technology Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

Management of California Emerging Technology Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered California Emerging Technology Fund's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants

San Francisco, California  
November 18, 2013



# CALIFORNIA EMERGING TECHNOLOGY FUND

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

### 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 Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters 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 Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by 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 qualified as a low risk auditee.

### FINDINGS - FINANCIAL STATEMENT AUDIT:

None

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

None