

Audited Financial Statements



June 30, 2019 and 2018

Quigley & Miron

California Communications Access Foundation
Audited Financial Statements
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June 30, 2019 and 2018

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Independent Auditor's Report

Board of Directors

California Communications Access Foundation

Oakland, California

We have audited the accompanying financial statements of California Communications Access Foundation (CCAF), a nonprofit organization, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, 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.

Auditor's Responsibility

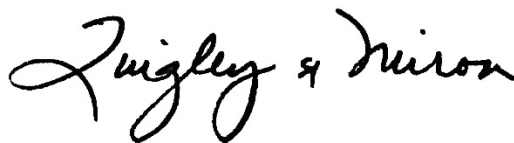
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 Communications Access Foundation as of June 30, 2019 and 2018, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Quigley & Miron". The signature is written in a cursive, flowing style.

Los Angeles, California
November 14, 2019

California Communications Access Foundation
Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 5,977,847	\$ 5,308,439
Investments—Note 3	36,225,143	33,433,242
Accounts receivable	3,833,115	4,235,607
Prepays and deposits	245,133	125,942
	<u>46,281,238</u>	<u>43,103,230</u>
Property and equipment, net of accumulated depreciation of \$129,645 and \$108,360 at June 30, 2019 and 2018, respectively	232,184	190,936
	<u>46,513,422</u>	<u>43,294,166</u>
	\$ 46,513,422	\$ 43,294,166
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 365,275	\$ 314,472
Grants payable—Note 6	559,700	495,375
Accrued payroll	921,352	894,947
Accrued vacation	756,000	712,505
Revolving fund	196,645	258,221
	<u>2,798,972</u>	<u>2,675,520</u>
Grants payable—Note 6	59,600	168,425
	<u>2,858,572</u>	<u>2,843,945</u>
	2,858,572	2,843,945
Net Assets		
Without donor restrictions		
Undesignated	6,736,112	6,120,411
Board-designated endowment funds	36,918,738	34,329,810
	<u>43,654,850</u>	<u>40,450,221</u>
	43,654,850	40,450,221
	<u>43,654,850</u>	<u>40,450,221</u>
	43,654,850	40,450,221
Total Liabilities and Net Assets	<u>\$ 46,513,422</u>	<u>\$ 43,294,166</u>

See notes to financial statements.

California Communications Access Foundation
 Statements of Activities
 Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net Assets Without Donor Restrictions		
Operating Activities		
Revenues and support		
Contract revenue	\$ 16,390,171	\$ 16,795,070
Interest and dividend income	944,776	813,925
Other	10,616	1,680
	<u>17,345,563</u>	<u>17,610,675</u>
Total Revenues and Support	17,345,563	17,610,675
Expenses		
Program services	15,215,480	14,750,548
Management and general	601,414	634,691
	<u>15,816,894</u>	<u>15,385,239</u>
Total Expenses	15,816,894	15,385,239
Change in Net Assets From Operations	1,528,669	2,225,436
Nonoperating Activities		
Investment return, net	1,675,960	936,310
	<u>1,675,960</u>	<u>936,310</u>
Total Nonoperating Activities	1,675,960	936,310
Change in Net Assets	3,204,629	3,161,746
Net Assets at Beginning of Year	<u>40,450,221</u>	<u>37,288,475</u>
Net Assets of End of Year	<u>\$ 43,654,850</u>	<u>\$ 40,450,221</u>

See notes to financial statements.

California Communications Access Foundation
Statement of Functional Expenses
Year Ended June 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 8,639,242	\$ 163,470	\$ 8,802,712
Payroll taxes	637,656	11,350	649,006
Employee benefits	3,282,621	52,000	3,334,621
Total Payroll, Taxes, and Benefits	12,559,519	226,820	12,786,339
Contract services costs	1,450,036		1,450,036
Grants	989,178		989,178
Office expenses		224,975	224,975
Agency staffing	174,657		174,657
Professional fees		41,222	41,222
Contract captioning costs	41,180		41,180
Insurance		33,501	33,501
Consulting	910	27,564	28,474
Payroll fees		26,112	26,112
Communications service		21,220	21,220
Total Expenses	\$ 15,215,480	\$ 601,414	\$ 15,816,894

See notes to financial statements.

California Communications Access Foundation
Statement of Functional Expenses
Year Ended June 30, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 8,053,657	\$ 144,631	\$ 8,198,288
Payroll taxes	600,379	10,782	611,161
Employee benefits	3,201,064	51,306	3,252,370
Total Payroll, Taxes, and Benefits	11,855,100	206,719	12,061,819
Contract services costs	1,388,393		1,388,393
Grants	1,167,407		1,167,407
Office expenses		317,137	317,137
Agency staffing	245,754		245,754
Professional fees		26,775	26,775
Contract captioning costs	42,387		42,387
Insurance		32,155	32,155
Consulting	51,507	13,630	65,137
Payroll fees		26,514	26,514
Communications service		11,761	11,761
Total Expenses	<u>\$ 14,750,548</u>	<u>\$ 634,691</u>	<u>\$ 15,385,239</u>

See notes to financial statements.

California Communications Access Foundation
Statements of Cash Flow
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 3,204,629	\$ 3,161,746
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	21,285	12,531
(Increase) decrease in operating assets:		
Accounts receivable	402,492	(362,560)
Prepays and deposits	(119,191)	693
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	50,803	96,534
Grants payable	(44,500)	182,352
Accrued payroll	26,405	44,954
Accrued vacation	43,495	106,911
Revolving fund	(61,576)	(14,938)
Net Cash Provided by Operating Activities	<u>3,523,842</u>	<u>3,228,223</u>
Cash Flows from Investing Activities		
Purchases of equipment	(62,533)	(61,957)
Purchase of investments	(10,398,104)	(14,042,714)
Proceeds from sale of investments	9,444,120	10,122,489
Realized and unrealized investment gains	(1,837,917)	(1,089,659)
Net Cash Used in Investing Activities	<u>(2,854,434)</u>	<u>(5,071,841)</u>
Increase (Decrease) in Cash and Cash Equivalents	669,408	(1,843,618)
Cash and Cash Equivalents at Beginning of Year	<u>5,308,439</u>	<u>7,152,057</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,977,847</u>	<u>\$ 5,308,439</u>
Supplemental Disclosures		
Income taxes paid	<u>\$ 4,873</u>	<u>\$</u>

See notes to financial statements.

California Communications Access Foundation
Notes to Financial Statements
June 30, 2019 and 2018

Note 1—Organization and Summary of Significant Accounting Policies

Organization—California Communications Access Foundation (CCAF) is a non-profit corporation incorporated on March 19, 2002. The mission and purpose of CCAF is to aid individuals within the deaf and disabled communities in California by promoting access to society through telecommunications and other means. CCAF's primary and largest program is administering a contract with the California Public Utilities Commission to provide specialized telephone equipment and relay services to Californians who are deaf and disabled. CCAF also operates a grant-making program for community-based nonprofit organizations in California which work to make spoken, verbal, or signed communication easier for people with disabilities.

Financial Statement Presentation—In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. CCAF has adopted ASU 2016-14 for the year ended June 30, 2019 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. CCAF's net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of CCAF and changes therein are presented and reported as follows:

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of CCAF. These net assets may be used at the discretion of CCAF's management and the board of directors.

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of CCAF and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit CCAF to use all or part of the income earned on related investments for general or specific purposes.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of CCAF's program services; and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

California Communications Access Foundation
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Income Taxes—CCAF is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, CCAF paid \$2,440 in unrelated business income taxes and \$2,600 for accrued unrelated business income taxes for year ended June 30, 2019. In addition, CCAF has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered ‘more likely than not’ to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2019 and 2018. Generally, CCAF’s information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Cash and Cash Equivalents—CCAF considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash consists of balances in checking and savings accounts and money market funds at banks.

CCAF has a revolving fund established for the sole purpose of paying for the monthly expenses of the California Public Utilities Commission (CPUC) Deaf and Disabled Telecommunications Program. Interest earned, if any, accrues for the sole benefit of CPUC. Since CCAF is acting as a fiscal agent, it has been shown as a liability. These funds cannot be commingled with the operating or other CCAF account funds.

Investments—CCAF has established and maintains an investment policy which is approved by the Board of Directors and is implemented by the external investment advisor selected and monitored by the investment committee and the staff. Investments in marketable securities are stated at fair value as determined by the custodian. Purchases and sales of securities are recorded on the trade date. Dividend income is recorded based on the ex-dividend date. Interest income is recorded as earned on an accrual basis. Unrealized gains and losses are included in the statement of activities and represent the difference between the cost and current market quotations of investments held at the end of the year. Realized gains and losses on the disposition of securities are determined using the first in, first out (FIFO) method of accounting. The investment portfolio is diversified and is comprised of equity and fixed income securities, mutual funds, and certificates of deposit. Individual stock holdings are actively traded on national exchanges.

Property and Equipment—Equipment is stated at cost. Provision for depreciation is made over the estimated useful lives of the assets using the straight-line method which ranges from one to five years. CCAF follows the practice of capitalization, at cost, all expenditures for property, furniture, and equipment in excess of \$5,000. The capitalization policy was increased to \$5,000 from \$1,500 during the year ended June 30, 2018.

Depreciation expense for the years ended June 30, 2019 and 2018 totaled \$21,285 and \$12,531, respectively, and is included in office expense on the statement of functional expenses.

California Communications Access Foundation
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Accrued Vacation and Sick Leave—Accumulated unpaid employee vacation leave benefits are recognized as liabilities, in accordance with generally accepted accounting principles. CCAF's policy on sick leave benefits is to record amounts as operating expenditures in the period sick leave is taken.

Concentration of Credit Risk—Financial instruments which potentially subject CCAF to concentrations of credit risk consist of cash, marketable securities, money market funds, mutual funds, and accounts receivables.

CCAF places its cash and cash equivalents with two high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At times, such cash and cash equivalent balances are in excess of the FDIC insurance limits. Management regularly reviews the financial stability of its cash and cash equivalents depositories and deems the risk of loss due to these concentrations to be minimal. Cash is also held by CCAF's investment custodian in money market funds which are not insured by Federal Deposit Insurance Corporation.

CCAF's marketable equity and debt securities and mutual funds are supervised by CCAF's Board of Directors, which, in consultation with professional investment advisors, determines the investment assets allocation of the investment portfolio in accordance with a board-approved investment policy. CCAF's management has assessed the credit risk associated with its marketable equity and debt securities, and mutual funds held at June 30, 2019 and 2018, and has determined that an allowance for potential losses due to credit risk in the investment portfolio is not necessary.

Cash held in investment accounts at investment custodians are insured by the Securities Investors Protection Corporation (SIPC) up to \$250,000 and the investments in securities are insured up to \$500,000. At times, such balances are in excess of SIPC coverage limits.

Accounts receivable represent revenues earned from a government contract but not collected as of June 30, 2019 and 2018. CCAF has determined that no allowance for potential losses due to uncollectible receivables was necessary at June 30, 2019 and 2018 as all such contract receivables are fully collected within three months of year-end.

Contract Revenue—Revenue from government contracts is recognized either when expenses are incurred or when services are provided.

Grant Expenditures—Grants awarded with an unconditional promise to give are accrued as a liability, and expensed when approved.

Functional Expenses—The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, all costs are charged directly to the natural and functional expense categories.

California Communications Access Foundation
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications—Certain amounts in 2018 have been reclassified to conform with the 2019 financial statement presentation.

Note 2—Availability and Liquidity

The following represents the availability and liquidity of CCAF’s financial assets at June 30, 2019 to cover operating expenses for the next fiscal year:

Cash and cash equivalents	\$ 5,284,252
Accounts receivable	3,833,115
	<hr/>
Total	\$ 9,117,367

CCAF’s goal is generally to maintain financial assets to meet at least 90 days of general operating expenses which are estimated to be \$3,748,000. CCAF has access to a \$3,000,000 line of credit to be used for working capital purposes. The Board-designated endowment, which has assets totaling \$36,918,738, is intended by the Board of Directors policy to be used for the purpose of making grants, providing consultants and educational opportunities to grantees, and conducting meetings and events, all in furtherance of CCAF's exempt mission.

Note 3—Investments

Investment securities are reported in the financial statements at fair value and consist of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Equity mutual funds	\$ 8,484,544	\$ 10,857,217
Equity securities	7,698,944	6,771,428
Bond mutual funds	6,121,202	5,784,626
Exchange traded funds	5,190,372	2,072,798
Corporate bonds and notes	3,076,162	3,751,756
US agencies	1,819,671	2,675,586
US government bonds and notes	1,583,274	127,568
Municipal bonds	1,551,409	232,748
Foreign bonds	656,625	1,121,115
Publically traded limited partnerships	42,940	38,400
	<hr/>	<hr/>
Totals	\$ 36,225,143	\$ 33,433,242

California Communications Access Foundation
Notes to Financial Statements—Continued

Note 3—Investments—Continued

Return on investment for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Realized and unrealized gain on investments	\$ 1,837,917	\$ 1,089,659
Investment fees	(161,957)	(153,349)
Investment Return, Net	1,675,960	936,310
Interest and dividend income	944,776	813,925
Total Investment Return	<u>\$ 2,620,736</u>	<u>\$ 1,750,235</u>

Note 4—Fair Value Measurements

In determining the fair value of assets and liabilities, CCAF utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. CCAF determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are characterized in one of the following levels:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities accessible to CCAF at the measurement date.

Level 2—Valuations based on observable inputs (other than Level 1), such as quoted prices for similar assets at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

CCAF may utilize a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by CCAF to value private investments is the Net Asset Value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. CCAF had no assets or liabilities classified at NAV as a practical expedient during the years ended June 30, 2019 and 2018.

California Communications Access Foundation
Notes to Financial Statements—Continued

Note 4—Fair Value Measurements—Continued

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018.

Common stocks and preferred stocks—valued at the closing price reported on the market on which the individual securities are traded.

Mutual funds—valued at the daily closing price as reported by the fund. Mutual funds held by CCAF are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by CCAF are deemed to be actively traded.

Certificates of deposit—fair value of certificates of deposit is estimated by discounting future cash flows at the currently offered rate for deposits of similar remaining maturities.

US Government bonds and notes, US agencies, corporate bonds and notes, foreign bonds, and municipal bonds—are all valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Fair values of assets measured on a recurring basis at June 30, 2019 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Equity mutual funds	\$ 8,484,544	\$ 8,484,544	\$	\$
Equity securities	7,698,944	7,698,944		
Bond mutual funds	6,121,202	6,121,202		
Exchange traded funds	5,190,372	5,190,372		
Corporate bonds and notes	3,076,162		3,076,162	
US agencies	1,819,671		1,819,671	
US government bonds and notes	1,583,274		1,583,274	
Municipal bonds	1,551,409		1,551,409	
Foreign bonds	656,625		656,625	
Publicly traded limited partnerships	42,940	42,940		
Totals	<u>\$ 36,225,143</u>	<u>\$ 27,538,002</u>	<u>\$ 8,687,141</u>	<u>\$</u>

California Communications Access Foundation
Notes to Financial Statements—Continued

Note 4—Fair Value Measurements—Continued

Fair values of assets measured on a recurring basis at June 30, 2018 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Equity mutual funds	\$ 10,857,217	\$ 10,857,217	\$	\$
Equity securities	6,771,428	6,771,428		
Bond mutual funds	5,784,626	5,784,626		
Exchange traded funds	2,072,798	2,072,798		
Corporate bonds and notes	3,751,756		3,751,756	
US agencies	2,675,586		2,675,586	
US government bonds and notes	127,568		127,568	
Municipal bonds	232,748		232,748	
Foreign bonds	1,121,115		1,121,115	
Publicly traded limited partnerships	38,400	38,400		
Totals	<u>\$ 33,433,242</u>	<u>\$ 25,524,469</u>	<u>\$ 7,908,773</u>	<u>\$</u>

Note 5—Concentrations

CCAF receives substantially all of its operating revenue from contracts with the CPUC. It has entered into a contract with the CPUC to provide services that support the CPUC Deaf and Disabled Telecommunications Program (DDTP). It has also entered into a contract with the CPUC to provide captioning services.

Note 6—Grants Payable

Grants payable totaling \$619,300 and \$663,800 at June 30, 2019 and 2018, respectively, consisted of approved grant commitments. As of June 30, 2019, based on specific grant agreements, amounts payable are expected to be paid as follows:

<u>Year Ending June 30,</u>	
2020	\$ 559,700
2021	59,600
Total	<u>\$ 619,300</u>

California Communications Access Foundation
Notes to Financial Statements—Continued

Note 7—Lease Commitments

CCAF maintains office space located in Oakland, California under a lease agreement at 1 Kaiser Plaza which was effective on May 19, 2019. The lease term is for 60 months. Previously, CCAF had an office lease which expired on September 30, 2018. On November 6, 2018 the lease was extended to January 31, 2019. CCAF also leases fleet vehicles and office equipment under lease agreements that expire on various dates through 2022.

Future minimum lease payments related to these leases as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	
2020	\$ 492,292
2021	434,160
2022	387,140
2023	319,235
2024	204,090
Thereafter	612
	<u>Total \$ 1,837,529</u>

Note 8—Employee Benefit Plans

CCAF has a 401(k) defined contribution plan covering all employees who meet the eligibility requirement. To be eligible the employees must be of 21 years of age and have completed 90 days of service. Retirement plan expenditures amounted to \$1,092,248 and \$1,075,922 respectively, for the years ended June 30, 2019 and 2018. CCAF has no ongoing financial obligations regarding the employees' individual retirement accounts.

CCAF has a deferred compensation agreement (Plan), under section 457(b) of the Internal Revenue Code, for its executive employees. The Plan was effective as of December 14, 2011. The Plan requires that the participant's account be credited with the required contribution as of the last day of each payroll period. Contributions totaled \$59,351 and \$43,148, respectively, for the years ended June 30, 2019 and 2018.

Note 9—Contingencies

CCAF receives funds from the CPUC through a contract that is subject to review and audit by the CPUC. Although such audits could result in non-compliance with contractual terms, the management does not anticipate any material non-compliance with the contracts administered during the year.

Note 10—Line of Credit

On November 7, 2018, CCAF entered into a line of credit agreement with City National Bank, which allows for maximum borrowings of \$3,000,000. Interest is at the higher of 2.5% or Prime minus 1%. The line of credit matures annually and has been renewed to November 15, 2020. At June 30, 2019, there were no outstanding borrowings against the line of credit.

California Communications Access Foundation
Notes to Financial Statements—Continued

Note 11—Board-Designated Endowment Funds

On November 13, 2014, the Board of Directors approved the creation of a board-designated endowment fund for the purpose of making grants, providing consultants and educational opportunities to grantees, and conducting meetings and events, all in furtherance of CCAF's exempt mission. In accordance with generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

CCAF's board-designated endowment is subject to the requirements of the Uniform Prudent Management Institutional Act (UPMIFA) adopted by the State of California. CCAF classifies as board-designated endowment net assets (i) net assets, in amounts determined by the Board, that are not subject to any donor-imposed restrictions, and (ii) accumulation of investment earnings and/or losses to the board-designated endowment in accordance with board designations.

In accordance with UPMIFA, CCAF considered the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund;
2. The general economic conditions;
3. The possible effect of inflation or deflation;
4. The expected total return from income and appreciation of investments;
5. The other resources of CCAF; and
6. The investment policies of CCAF.

Investment Objectives and Strategies—CCAF has adopted an investment policy for investing endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner to maximize return within reasonable and prudent levels of risk, and with proper monitoring and assessment of associated costs; follow an investment policy based on total return, not yield; and realize sufficient total return to help support a broad level of programs and services as discussed previously. To achieve these objectives, CCAF follows an asset diversification plan, sets performance benchmarks for investments managers, and has established various asset quality and limitation thresholds.

Spending Policy—CCAF has adopted a spending policy that authorizes an annual distribution up to 10% of the market value of the portfolio. The Board reserves the sole discretion to amend the foregoing spending guideline for the fund from time to time.

California Communications Access Foundation
Notes to Financial Statements—Continued

Note 11—Board-Designated Endowment Funds—Continued

Board-designated endowment assets consist of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Equity mutual funds	\$ 8,484,544	\$ 10,857,217
Equity securities	7,698,944	6,771,428
Bond mutual funds	6,121,202	5,784,626
Exchange traded funds	5,190,372	2,072,798
Corporate bonds and notes	3,076,162	3,751,756
US agencies	1,819,671	2,675,586
US government bonds and notes	1,583,274	127,568
Municipal bonds	1,551,409	232,748
Foreign bonds	656,625	1,121,115
Cash	693,595	896,568
Publicly traded limited partnerships	42,940	38,400
Totals	<u>\$ 36,918,738</u>	<u>\$ 34,329,810</u>

The following is a summary of CCAF's endowment fund activity for the year ended June 30, 2019:

Endowment Net Assets at July 1, 2018	\$ 34,329,810
Board-designated net asset additions	1,000,000
Interest and dividends	926,861
Investment returns, net	1,675,960
Appropriation of board-designated endowment assets for expenditure	<u>(1,013,893)</u>
Endowment Net Assets at June 30, 2019	<u>\$ 36,918,738</u>

The following is a summary of CCAF's endowment fund activity for the year ended June 30, 2018:

Endowment Net Assets at July 1, 2017	\$ 29,603,685
Board-designated net asset additions	4,000,000
Interest and dividends	802,255
Investment returns, net	936,310
Appropriation of board-designated endowment assets for expenditure	<u>(1,012,440)</u>
Endowment Net Assets at June 30, 2018	<u>\$ 34,329,810</u>

California Communications Access Foundation
Notes to Financial Statements—Continued

Note 12—Recent Accounting Pronouncements

Leases—In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. CCAF is currently evaluating the impact that the adoption of ASU 2016-02 will have on its financial statements.

Contributions—In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies the definition of an exchange transaction. As a result, not-for-profit entities (NFPs) will account for most federal grants as donor-restricted conditional contributions rather than as exchange transactions (the prevalent practice today). An accommodation (“simultaneous release” option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today. Donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. No new disclosures are required. ASU No. 2018-08 is effective for resource recipients with fiscal years beginning after December 15, 2018, and for resource providers with fiscal years beginning after December 15, 2019; early adoption is permitted.

Note 13—Subsequent Events

Management evaluated all activities of California Communications Access Foundation through November 14, 2019, which is the date the financial statements were available to be issued, and concluded that no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.